Leeds
CITY COUNCIL

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Meeting to be held in Civic Hall, Leeds, LS1 1UR on
Friday, 16th September, 2016
at 2.00 pm

MEMBERSHIP

Councillors

P Grahame (Chair)
K Bruce
N Dawson
A Sobel
J Illingworth
K Groves
G Hussain

J Bentley

R Wood
P Harrand

Agenda compiled by:
Governance Services
Civic Hall

Governance Services (0113 224 3836)

Produced on Recycled Paper

A G E N D A

Item No	Ward	Item Not Open		Page No
1			**APPEALS AGAINST REFUSAL OF INSPECTION OF DOCUMENTS** To consider any appeals in accordance with Procedure Rule 15.2 of the Access to Information Procedure Rules (in the event of an Appeal the press and public will be excluded). (*In accordance with Procedure Rule 15.2, written notice of an appeal must be received by the Head of Governance Services at least 24 hours before the meeting)	
2			**EXEMPT INFORMATION - POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC** 1 To highlight reports or appendices which officers have identified as containing exempt information, and where officers consider that the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons outlined in the report. 2 To consider whether or not to accept the officers recommendation in respect of the above information. 3 If so, to formally pass the following resolution:- **RESOLVED –** That the press and public be excluded from the meeting during consideration of the following parts of the agenda designated as containing exempt information on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information, as follows:-	

Item No	Ward	Item Not Open		Page No
3			**LATE ITEMS** To identify items which have been admitted to the agenda by the Chair for consideration (The special circumstances shall be specified in the minutes)	
4			**DECLARATION OF DISCLOSABLE PECUNIARY AND OTHER INTERESTS'** To disclose or draw attention to any disclosable pecuniary interests for the purposes of Section 31 of the Localism Act 2011 and paragraphs 13-16 of the Members' Code of Conduct.	
5			**APOLOGIES** To receive any apologies for absence.	
6			**MINUTES - 24TH JUNE 2016** To receive and approve the minutes of the meeting held on 24th June 2016.	1 - 12
7			**SUNDRY DEBTORS - OUTSTANDING HOUSING BENEFIT OVERPAYMENTS** To receive a report considering the provision made in the 2015/16 Statement of Accounts in respect of Housing Benefit Overpayments and arrangements to secure recovery.	13 - 20
8			**APPROVAL OF THE AUDITED STATEMENT OF ACCOUNTS AND KPMG AUDIT REPORT** To receive a report seeking Members approval to the Council's final audited Statement of Accounts and to consider any material amendments identified by the Council or recommended by the auditors.	21 - 166

Item No	Ward	Item Not Open		Page No
9			**LOCAL TRANSPARENCY CODE** To receive a report of The Deputy Chief Executive providing Members with background information about the Local Government Transparency Code and how it impacts on the council.	167 - 174
10			**REVIEW OF CURRENT BUSINESS RATES ISSUES** To receive a report of the Deputy Chief Executive providing a briefing on current business rates issues as requested by the Committee at its meeting of 24th June 2016. The report is intended to enable members to more fully understand the risk environment around business rates and to receive assurances around risk management arrangements.	175 - 206
11			**RISKS AND OPPORTUNITIES ASSOCIATED WITH THE EU REFERENDUM RESULT** To receive a report of the Deputy Chief Executive providing assurances to the Committee that the council has effective arrangements in place to identify and respond to those risks – including potential opportunities – associated with the vote to leave the EU.	207 - 226
12			**INTERNAL AUDIT UPDATE REPORT 1 JUNE TO 31 AUGUST 2016** To receive the report of the Deputy Chief Executive providing a summary of the internal audit activity for the period 1st June to 31st August 2016 and highlights the incidence of any significant control failings or weaknesses.	227 - 240

Item No	Ward	Item Not Open		Page No
13			**WORK PROGRAMME** To receive a report of the City Solicitor which notifies Members of the Committee of the draft work programme for the 2016/17 year. Third Party Recording Recording of this meeting is allowed to enable those not present to see or hear the proceedings either as they take place (or later) and to enable the reporting of those proceedings. A copy of the recording protocol is available from the contacts named on the front of this agenda. Use of Recordings by Third Parties– code of practice a) Any published recording should be accompanied by a statement of when and where the recording was made, the context of the discussion that took place, and a clear identification of the main speakers and their role or title. b) Those making recordings must not edit the recording in a way that could lead to misinterpretation or misrepresentation of the proceedings or comments made by attendees. In particular there should be no internal editing of published extracts; recordings may start at any point and end at any point but the material between those points must be complete.	241 - 244

This page is intentionally left blank

Agenda Item 6

Corporate Governance and Audit Committee

Friday, 24th June, 2016

PRESENT: Councillor P Grahame in the Chair

Councillors R Wood, J Bentley, P Harrand, K Bruce, N Dawson, J Illingworth, K Groves and G Hussain

1 Chair's Opening Remarks

The chair welcomed members to the first meeting of the municipal year and thanked Councillor Hussain for his service to the committee as chair over the last three years.

2 Appeals Against Refusal of Inspection of Documents

There were no appeals against the refusal of inspection of documents.

3 Exempt Information - Possible Exclusion of the Press and Public

There were no resolutions to exclude the public.

4 Late Items

There were no late items submitted to the agenda for consideration. However supplementary information had been published in relation to Agenda Item 7 "KPMG Interim Audit Report & Technical Update" Minute No.9 refers.

5 Declaration of Disclosable Pecuniary and Other Interests'

No declarations were made.

6 Apologies

No apologies were received

7 Minutes - 18th March 2016

RESOLVED – That the minutes of the meeting held on 18th March 2016.

Draft minutes to be approved at the meeting
to be held on Friday, 16th September, 2016

8 Matters Arising

Minute No.69 KPMG Full Audit Plan

Following a question about reviewing the level of the Council's reserves within the context of its medium term financial plan, it was confirmed by Mr Walker from KPMG staff that this had not happened yet, but would be completed in time for the presentation of the ISO 260 report in September. In addition Mr Walker assured the committee that this will be made available to Members as soon as the work has been completed.

RESOLVED – The Committee resolved to receive the results of the review of Council reserves as soon as it was available.

Minute No 73. Annual Information Governance Report

The Head of Governance Services provided an update which confirmed that the Committee's comments with regards to the Council's ability to comply with the INSPIRE European Directive had been reported to Corporate Leadership Team.

9 KPMG Interim Audit Report and Technical Update

The Deputy Chief Executive submitted a report which presented the results of KPMG's interim audit work in relation to the council's financial systems and controls and which provided the committee with a technical update in respect of:

- The new local audit framework
- The LGA's 2015 Spending Review submission
- A DCLG consultation on pension fund investment reform
- The Accounts and Audit Regulations 2015
- The 2015/16 Code of Practice in Local Authority Accounting in the United Kingdom
- Capital Receipts Flexibility
- Devolved Structures in the North of England
- Better Care Find Policy Framework 2016/17 and the Care Act first phase reforms

The Principal Finance Manager updated the Committee with the latest position in relation to the future appointment of external auditors. It was confirmed that the Council had expressed interest in joining a sector led national procurement body, but this was non-binding and did not commit the council to following this procurement route. Further information will be provided at the January 2017 meeting of the Committee.

Mr Walker and Mr Smith were able to assure the committee that no serious concerns have been found by KPMG in respect of the controls in place for the key financial systems and there is nothing to report in this respect.

In discussion with Members it was confirmed that the Council's accounts were published on line. Members also sought information in respect of how the public gained access to details of transactions over £500, it was confirmed that all transactions, irrespective of value, are similarly published to the Leeds Data Mill.

Members requested that further information be provided on how the public can easily access this type of information and sought assurance that the authority's responsibilities in respect of access to data sets prescribed by the Local Authority Transparency Code are being complied with.

Clarification was also provided by KMPG to Members that although more audit work would be completed during 2016/17, the fees would not change from the previously reported level.

RESOLVED – The Committee resolved to:

(a) Note that there are no issues which KPMG wish to bring to the attention of the Committee in respect of their review of the systems and controls which underpin the Council's financial statements; and
(b) Request further information on how the public can access the draft statement of accounts and the data that is published on individual spending transactions.

10 Publication of Draft Statement of Accounts 2015/16

The Principal Finance Manager presented a report of the Deputy Chief Executive which presented the 2015/16 Statement of Accounts prior to them being made available for public inspection..
Members were informed that the Deputy Chief Executive signed the draft unaudited Statement of Accounts on the 13th June 2016 and that after consideration by the committee the Accounts will be placed on deposit for public inspection and will be audited by KPMG over the summer period. The final audited Accounts will be presented to the committee again in September for approval.

The Principal Finance Manager advised the committee that in respect of Business Rates the net deficit is £70m, of which 49% is attributable to the Council. At the time when the budget was set for 2015/16 this figure was predicted to be £47m, presenting a £23m shortfall of which £11m is attributable to the Authority and which will need to be taken account of in the 2017/18 budget setting process.

The Head of Corporate Finance confirmed that Business Rates were causing the Council some difficulties at the present time, this being due to a range of factors including appeals (there being some 5000 Appeals outstanding), discounts applied due to flooding (although some grant income was also received to offset this) and granted empty property relief. Members were informed that the Gross Rateable Value for the city is now estimated to be £912m which is less than the value prior to the Trinity shopping area opening.

This erosion being caused by the appeal process and the change in the economy and market conditions in Leeds.

The Committee requested that a further report on business rates be prepared for consideration to include;

- Background on to the Council's current and future liabilities in respect of business rates retention;
- The roles, responsibilities and decision making processes of the Council and the Valuation Office;
- Any impact arising from the publication by the Valuation Office of the new ratings list;
- Current and future trends in respect of business rate income and liabilities arising from business rate valuation appeals;
- The risks associated with business bates retention to the Council's budget setting process.

Members also sought confirmation on the amount of reserves that the Council holds. In total it was reported that the Council had £320m of spendable reserves, of which £268m are ringfenced, £30m are earmarked for other specific purposes and the remaining £21.3m is the Council's general reserve. Of the £268m ringfenced reserves, £186m relates to Capital, £38m relates to the HRA, £38m relates to Schools and £6m relates to grants received in advance of revenue spending.

The Chair questioned the procedure for the reduction of business rates and how businesses qualify for reductions in the City Centre when the retail landscape of the City Changes.

Members queried the 'other sundry debtor' position and noted that that this stood at £76million and had increased since last year. Members were informed that the largest change in this figure, compared to the previous year, was an increase of £6.4m in Housing Benefit overpayment debtors. Members asked that a detailed breakdown of sundry debtors be provided.

Members commented that total of capital receipts from the sale of assets totalled £26million but that the value of these assets were £32 million. It was noted that a large proportion of the difference in these figures is due to the sale of right to buy houses which the Council has no control over the level on which to sell. Members requested that further information in relation to the figure stated for the sale of non-housing related assets is provided.

Members also discussed the conversion of schools into academies and how this affected the Council's accounts. It was confirmed that the transfer of these assets totalled a £44 million loss but that the Council was no longer responsible for the maintenance of the buildings. Members requested a breakdown of the assets handed over and their value.

RESOLVED – The Committee resolved to:

(a) note the 2015/16 unaudited Statement of Accounts as certified by the Deputy Chief Executive,;
(b) Request a further report on business rates;
(c) Request a breakdown of the £76 million sundry debtor position and of the capital receipts arising from non-housing assets; and
(d) Request a detailed breakdown of the assets transferred to create academies and their associated value.

11 Internal Audit Annual Report and Opinion 2015/16

The Chief Officer (Audit & Investment) presented a report of The Deputy Chief Executive which brought to the attention of the Committee the annual internal audit opinion and basis of the internal audit assurance for 2015/16.
It was highlighted that internal audit will also issue interim reports to the Committee if any significant matters arose which would warrant immediate attention.

Members sought clarification on how the Chief Officer's Opinion on the Council's control environment was arrived at. It was confirmed that all work undertaken by Internal Audit was done in line with the professional internal audit standards, opinions were based on evidence gathered and that the schedule of audits undertaken was reflected in the risk based audit plan presented to Members at the start of the year.

Members sought clarification that there were enough resources within Internal Audit to deliver the 2016/17 Audit Plan and to provide an opinion on the control environment. The Chief Officer (Audit & Investment) highlighted the technological advances in auditing techniques which allowed for greater audit coverage and that three extra staff had been recruited by Internal Audit from Financial Services. The Chief Officer (Audit and Investment) also confirmed that the resources deployed were sufficient to give an evidence based opinion.

Members discussed how off contract spend was monitored and also the process for extending contracts once they have expired. Members requested that a briefing note be prepared for circulation to the committee detailing the amount of off contract spend by department.

RESOLVED The Committee resolved to:

(a) Receive the Internal Audit Annual Report for 2015/16 and note the opinion given on the basis of the audit work undertaken during the 2015/16 financial year. In particular:

- That there were no outstanding significant issues arising from the work undertaken by Internal Audit;

- That on the basis of the audit work undertaken during the 2015/16 financial year, the internal control environment (including the key financial systems, risk and governance) was well established and operating effectively in practice; and

- That the work undertaken to support the opinion has been conducted in accordance with an established methodology that promoted quality and conformance with the International Standards for the Professional Practice of Internal Auditing; and

(b) Request a briefing note be prepared and circulated to committee members setting out the amount of off contract spend by directorate.

12 KPMG Report - Corporate Risk Register Analysis

The Principal Finance Manager presented a report of The Deputy Chief Executive which introduced KPMG's report on corporate risk registers and set out the Council's response to the recommendations made.

The Senior Risk Management Officer and Mr Walker of KPMG commented that the Council's Risk Register includes the types of risks that they would expect to see in a large local authority.

In discussion in relation to the two issues raised for the authority to consider by KPMG, it was confirmed that key risks would be assigned to members and that the level of prominence given to financial risk was regularly reviewed, although it was felt that the current level was appropriate.

Following questions from Members about the risks to the authority arising from the referendum vote to leave the European Union it was confirmed that the implications of this are in the process of being considered. The committee requested a further report to provide reassurance that arrangements are in place to identify and manage any emerging risks.

RESOLVED – The Committee resolved to:

(a) note the contents of KPMG's report, and the council's proposed response to the points raised in it; and
(b) Request a further report to provide reassurance to the committee that arrangements are in place to identify and manage any risks emerging as a consequence of the vote to leave the European Union.

13 Annual assurance report on corporate risk and performance management arrangements

The Senior Risk Management Officer presented a report of The Deputy Chief Executive. This annual report detailed assurances to the Committee on the effectiveness of the Council's corporate risk and performance management arrangements.

It was confirmed that following the publication of high level risks on the Council's website that there had been no requests from the public for further detail.

RESOLVED - The Committee resolved to note the annual report on the Council's corporate risk and performance arrangements and note the assurances in support of the Annual Governance Statement, due for consideration and approval by this Committee.

14 Annual Assurance Report on the Financial Management and Control Arrangements

The Head of Corporate Finance presented a report of the Deputy Chief Executive which provided assurance to this Committee that the Council had in place effective and robust arrangements for financial planning, financial control and other financial management activities.

This report outlined:

- The key systems, controls and procedures;
- New developments and improvements which have been put in place;
- New developments in the near future; and
- New risks and any issues arising.

The report aimed to give members assurance that the financial control and financial governance arrangements that were in place were fit for purpose, up to date and embedded across the organisation.

Members discussed the structure of the finance function at Leeds City Council and whether this was reviewed and compared to other authorities. It was confirmed that the structure and method of deployment of finance staff has, since 2009, been by way of a team who are all professionally accountable to the Chief Officer (Financial Services) and through him to the Deputy Chief Executive. These staff are then flexibly deployed as need requires. The Head of Corporate Finance confirmed that this is under constant review and is benchmarked against other comparable authorities.

Members also queried the existing business systems and whether they are integrated and provide sufficient capacity for reconciliation of all spend.

Members queried whether it was sustainable to continue to operate a budget setting and budget management process whereby, in some isolated circumstances over the last four years, directorates have overspent.

It was confirmed that demand management, compliance with statutory responsibilities (particularly around safeguarding) coupled with the ongoing need for service efficiencies continue to be a significant challenge across the authority.

RESOLVED - The Committee resolved to:

Note the assurances provided that the appropriate systems and procedures were in place to ensure sound financial management and control.

15 Annual assurance report on employment policies and procedures and employee conduct.

The HR Business Partner presented a report of the Chief Officer HR which provided assurance to the Committee that: the requirements of employee conduct were established and regularly reviewed; requirements relating to employee conduct are communicated and feedback is collected on whether expected behaviours were being demonstrated; and employee conduct is monitored and reported.

Members noted that officers were required to declare interests in a similar way to Members.

Members requested that they be updated on the position on the percentage of staff who have had appraisals at the earliest opportunity.

RESOLVED - The Committee resolved to note the positive assurances provided in relation to employment policies and employee conduct. Particularly:

(a) In relation to the requirements of employee conduct being established and regularly reviewed:

- Assurance that the Code of Conduct is accessible to employees and fit for purpose;
- Assurance that politically restricted posts have been matched to the specified and sensitive criteria; and
- Assurance that there is a programme of review for employment policies to ensure they are fit for purpose.

(b) In relation to the requirements of employee conduct being communicated and feedback being collected on whether expected behaviours are being demonstrated:

- Assurance that annual reminders regarding gifts and hospitality are issued and that Directors review annually the declarations that have been made;
- Assurance that there is rolling programme for the completion of register of interests for employees in identified high risk posts and that declarations are reviewed by Directors;
- Assurance that through the Manager Challenge programme the values and behaviours expected of managers is being embedded;
- Assurance that through the appraisal process managers rate employees on their overall performance and also on the behaviours they demonstrate;

- Assurance that through the annual engagement survey feedback is gathered direct from employees on how well behaviours are being demonstrated;
- Assurance that mandatory "Information Governance Level 1" training is in place and is reviewed and refreshed every 2 years.

(c) In relation to the requirement that employee conduct is monitored and reported:

- Assurance that where appropriate employees are referred for investigation under the disciplinary policy; and

- Assurance that there have been no referrals to the HR casework team in 2015/16 for any breach of the politically restricted posts policy, the gifts and hospitality policy or the register of interests policy.

(d) Receive an update on the percentage of staff that have had an appraisal at the earliest opportunity.

16 Annual Decision Making Assurance Report

The Head of Governance presented a report of The City Solicitor which provided the annual report to the Committee concerning the Council's decision making arrangements.

The report provided one of the sources of assurance which the Committee is able to take into account when considering the approval of the Annual Governance Statement.

Members were asked to consider the results of monitoring documented within the body of this report and to note the assurances given by the Head of Governance Services, the Head of Elections, Licensing and Registration and the Chief Planning Officer, that the decision making framework in place within Leeds City Council is up to date, fit for purpose, effectively communicated and routinely complied with.

The Section Head (Taxi & Private Hire Section) and The Head of Development Management were in attendance to answer any questions relating to Licensing and Planning.

RESOLVED – The Committee resolved to note the positive assurances provided in the submitted report in relation to executive decision making, the regulation of investigatory powers, licensing, and planning.

Particularly:

(a) In relation to executive decision making:-

- assurance that the Constitution is maintained up to date, relevant, compliant with legislation and fit for purpose;

- assurance that continuous review of delegation and publication arrangements ensure that decisions are made appropriately and transparently;
- assurance that ongoing monitoring takes place in relation to key performance indicators including the publication of agendas, minutes, and forthcoming Key decisions and the availability of decisions to call in; and
- assurance that training in relation to the Council's structures and decision making arrangements ensure that they are understood and embedded in decision making culture and are routinely complied with; and
- assurance that regular reviews of decision making governance arrangements confirm that they are updated as necessary to ensure that they are fit for purpose.

(b) In relation to the regulation of investigatory powers:-

- Assurance that appropriate preparations have been made, including the delivery of training to relevant colleagues, in anticipation of use of powers to acquire communications data by colleagues in Environmental Action;
- Assurance that guidance and procedure documents have been reviewed and updated and that no further changes to Regulation of Investigatory Powers Act policy are recommended by officers at this time;
- Assurance that appropriate steps are taken to embed and enforce good practice; and
- Confirmation that there have been no applications for directed surveillance or CHIS authorisations in the reporting period.

(c) In relation to planning:

- Assurance that the framework for determination of planning matters and arrangements for the delegation of planning functions are regularly reviewed;
- Assurance, from internal audit, that decision making arrangements are fit for purpose and routinely complied with;
- Confirmation that ongoing performance monitoring reviews:-
    - o Workload;
    - o compliance with statutory timescales;
    - o appropriate use of agreed extensions of time;
    - o decisions against officer recommendation;
    - o appeals; and
    - o complaints;

- Provision of appropriate training for both officers and Members has taken place; and
- Confirmation that work is ongoing to build and develop relationships with partners and customers.

(d) In relation to licensing to:-

- Note the reports received by Licensing Committee on 9th February 2016, and specifically the assurances contained in those reports in relation to licensing decisions, practice and procedure; and
- Note the work undertaken to promote safeguarding in relation to taxi and private hire licensing as outlined in the report received by Executive Board on 16th December 2015.

17 Annual Governance Statement

The Head of Governance Services submitted a report of the City Solicitor which presented the Annual Governance Statement (AGS) to the committee for approval.

RESOLVED – The Committee resolved to:

(a) Agree that the attached draft Annual Governance Statement be released to accompany the draft accounts when they are placed on public deposit; and
(b) Authorise the Chair to agree any additions/amendments to the Statement that may be necessary following the receipt of the External Auditor's opinion.

18 Internal Audit Update Report 1st March to 31st May 2016

The Chief Officer (Audit & Investment) presented a report which:

- Provided a summary of the internal audit activity for the period 1st March to 31st May 2016 and highlighted the incidence of any significant control failings or weaknesses; and
- Presented the Terms of Reference for the external assessment of the internal audit function for review and approval.

Mr S Shah (Head of Internal Audit at Nottingham City Council) was also in attendance to discuss the external assessment of the Internal Audit function and answer any questions from Members.

Members sought assurance that Mr Shah would have un-fettered access to information required to complete the review independently and objectively. It was confirmed that this access would be granted, that the Section 151 officer was also the sponsor of the review, and that the outcome of the review would be reported to Members in January 2017.

RESOLVED - The Committee resolved to:

(a) note the Internal Audit Update Report covering the period from 1st March to 31st May 2016 and note the work undertaken by internal audit during the period covered by the report; and
(b) Approve the proposed Terms of Reference for the external assessment of the internal audit function.

19 Review of the Anti-Money Laundering Policy

The Chief Officer (Audit & Investment) submitted a report which informed the Committee of the revisions to the Money Laundering Policy and to provide an opportunity to comment on the proposals.

Members sought confirmation that there had been no confirmed instances of money laundering at the Council.

RESOLVED – The Committee resolved to:

(a) note the contents of this report, and the proposed Anti-Money Laundering Policy; and
(b) Note that having taken into account Corporate Governance and Audit Committee and Executive Member comments, The Chief Officer (Audit and Investment) will take a delegated decision to approve the revised policy prior to publication.

20 Work Programme

The City Solicitor submitted a report which notified Members of the Committee of the draft work programme for the 2016/17 year. The draft work programme was attached at Appendix 1 of the submitted report.

The Head of Governance Services addressed the Committee and summarised the reports and information requested by Members throughout the meeting.

RESOLVED – The Committee resolved to:

(a) Note the contents of the forthcoming work programme;
(b) Add to the work programme items as follows:
- A report on the authorities compliance with the Openness of Local Government Bodies Regulations 2014.
- A report detailing the procedures relating to business rates appeals and the role of the Valuation Office;
- A report to provide assurance on the identification and management of risks emerging from the decision to leave the European Union; and
- A report setting out the outcome of the Internal Audit Peer Review.

Report author: Andy Cameron
Tel: 22 43913

Report of Chief Officer Welfare & Benefits Service

Report to Corporate Governance & Audit Committee

Date: 16th September 2016

Subject: Sundry Debtors – Housing Benefit Overpayments

Are specific electoral wards affected? If relevant, name(s) of ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☒ No
Is the decision eligible for call-In?	☐ Yes	☒ No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: Appendix number:	☐ Yes	☒ No

Summary of main issues

1. Overpayments are an unavoidable feature of any means-tested benefit scheme. The Welfare & Benefits Service makes every attempt to provide a secure and accurate service but where overpayments occur a variety of recovery methods are used to recover the debt. Between 80% and 83% of debt is recovered over the life time of the debt and this means that the Council not only suffers no financial loss from the DWP's subsidy regime but is also able to contribute to help alleviate budget pressures.

2. As at March 2016 the Council had £25.2M in outstanding housing benefit invoices.

3. 62% of outstanding debt is on some form of weekly arrangement to settle the outstanding account, in excess of £10M currently being accounted for by deduction from ongoing housing benefit or DWP related entitlement.

4. The introduction of Universal Credit will in time see the number of housing benefit recipients reduce. The opportunity to recover housing benefit debts from ongoing housing benefit and from DWP related benefits will therefore reduce which will impact on the level of income to the Council.

Recommendations

5. Corporate Governance & Audit Committee is requested to note the information in the report and recognise the assurance provided through regular audit, both internal and external, of the Benefits Service.

1 Purpose of this report

1.1 The report provides information on how and why Housing Benefit overpayments occur and also provides information on the financial implications for the Council arising from Housing Benefit overpayments.

2 Background information

2.1 Housing benefit is a statutory scheme delivered by local Councils on behalf of the Department for Work and Pensions. The key elements of the scheme are:

- It is a means-tested scheme that takes into account household income, family size, disability, property type and size, rent liability and the presence of non-dependents i.e. adults other than the householder and partner who are part of the household (normally grown up children)

- There are complex subsidy rules that determine how much of the Housing Benefit spend by the Council is recouped from Government. Generally, around 97% of spend is recouped through Government subsidy – however, the 3% cost equates to around £10m. Rules which see Housing Benefit overpayments attract reduced subsidy account for most of the £10m (see Main Issues section for more information on this). The annual subsidy claim is subject to an extensive external audit which states whether HB payments have been properly made and whether the subsidy claim is accurate. Where there are doubts about the subsidy claim, the claim is 'qualified' and DWP will seek to reduce subsidy payments to the Council. There have been no financial qualifications of the subsidy claim in Leeds for over 15 years.

- As part of the annual external audit, auditors look at whether the Council has taken appropriate steps to a) ensure that new claims are properly verified before being put into payment and b) that appropriate steps are taken to identify changes in circumstances during the life of a claim. For information, Audit & Investment carry out a significant annual programme of audits within the Benefits Service. The following areas have been audited in 2015/16 in relation to Housing Benefit with each area deemed to provide substantial assurance against the control environment.

  - Assessments & Payments (which includes an overpayment audit)

  - Housing Benefit Reconciliations

  - Year End Reconciliation of Housing Benefit (and Council Tax Benefit)

- In addition to the above, the 2015/16 Counter Fraud audit gave "Good Assurance" in relation to the operational aspects of the system in respect of updating Housing Benefits (and Council Tax Support) information following information from the DWP and from LCC work being undertaken.

2.2 The value of Housing Benefit spend has grown each year. This is set out in the table below along with comparative information for Housing Benefit overpayments. The comparative data shows the overall value of overpayments and also shows this as a percentage of total Housing Benefit spend.

	2010/11 - £m	2011/12 - £m	2012/13 - £m	2013/14 - £m	2014/15 - £m	2015/16 - £m
HB spend	247.1	263.8	279.1	286.9	292.2	287.8
Ops	5.94	6.78	6.67	7.90	12.2	15.8
OPs (% of spend)	2.4%	2.57%	2.39%	2.76%	4.19%	5.49%

3 **Main issues**

3.1 Overpayments are an inevitable factor of any benefit that is based on changeable personal circumstances. They occur because a) there are changes in people's circumstances, b) an official error has been made or c) there has been an attempt to commit fraud. For Housing Benefit purposes customers are required to report any change in their circumstances that relates to:

- Their weekly income (including benefit income)
- Their status as married, living with a partner or single
- Their family size
- The number and income of non-dependents
- Where they are living
- Their weekly rent
- Their disability status

Overpayments caused by customer delays in reporting a change in circumstance are known as Claimant Error overpayments.

3.2 Official error overpayments occur when there has been a delay in dealing with a change of circumstance or where there has been a mistake made in calculating benefit entitlement. Generally, local councils have the lowest levels of official error overpayments in comparison to benefits administered by the Department for Work and Pensions. The latest Fraud and Error stats provided by DWP show that for continuously reviewed benefits, the level of official error was:

- Housing Benefit 0.4% of overall spend
- ESA 0.6%
- Pension Credit 1.7%
- Universal Credit 1.7%
- Jobseekers Allowance 1.8%

3.3 Where Housing Benefit has been properly paid, DWP will normally provide 100% subsidy to the local council. However, where Housing Benefit has been overpaid, DWP provides different rates of subsidy:

- Subsidy for overpayments caused by claimant error is 40%. This means that if there has been an overpayment of £100, then the council will only get £40 from Government;

- Subsidy for official error overpayments is more complex. Where councils keep official error levels below 0.4% of properly paid Housing Benefit, then they will get 100% subsidy from the Government. This is because DWP accepts that a degree of official error is inevitable. If the value of official error overpayments exceeds 0.4% of spend, 40% subsidy is paid; if the value exceeds 0.59% then 0% subsidy is paid. Leeds has always secured 100% subsidy on official error overpayments.

3.4 The reduced level of subsidy provided by DWP for overpayments is intended to encourage local councils to seek to recover overpayments.

3.5 Overpayments occur because changes happen once a claim has been put into payment. A number of initiatives exist in order to help identify changes. These are:

- All communications to customers remind them of the need to report changes and set out the changes that need to be reported;

- A programme of reviews is undertaken each year with high risk cases which requires customers to re-state their circumstances and, where appropriate, provide proof

- DWP has developed an automated notification process to local councils that reports changes to benefits income for those claiming Housing Benefit. This is known as ATLAS (**A**utomated **T**ransfer of data to **L**ocal **A**uthoritie**S**). Councils receive notifications through ATLAS every day;

- Housing Benefit Matching Service (HMBS) is a monthly data-matching initiative run by DWP which provides details of cases where there appears to be a discrepancy in the income declared and the actual income from other records

- DWP initiatives such as the Right Time Initiative (RTI) which provides details of earnings for Housing Benefit customers and helps identify cases where the council may have been unaware that a customer is working, cases where earnings have been understated and cases where earnings have changed. The RTI initiative is a relatively new initiative and has led to a significant growth in overpayment in the last 2/3 years.

3.6 Where housing benefit is paid in excess of entitlement the Council is obliged by law to recalculate benefit entitlement. The council also has to consider whether an overpayment is legally recoverable – all overpayments are recoverable unless they have been caused by official error **and** the customer could not reasonably have been expected to know they were being overpaid

3.7 Housing Benefit is a difficult debt to recover. This is because many of the people who have been overpaid have low incomes and many may still be on benefits. The options for recovering Housing Benefit are:

- By weekly deductions from ongoing Housing Benefit entitlement;

- By weekly deduction from ongoing entitlement from other DWP benefits where recovery from HB is not an option. This option requires DWP approval and there may be other request to recover debt from a claimants DWP benefit;

- By issuing an invoice for recovery

- Where payment has been made to a landlord, recovery can be sought from the landlord and in some instances it is possible to recover an overpayment for one tenant that has been paid to the landlord by deducting from the payment to the same landlord for another tenant.

Housing Benefit Debt

3.8 The total value of Housing Benefit overpayments has risen significantly over the last 3 years due, largely, to DWP initiatives that have provided greater access to HMRC data about earnings.

15/16: £15.3M in housing benefit related overpayments was raised

14/15: £11.9m in housing benefit related overpayments was raised

13/14: £7.8m in housing benefit related overpayments was raised.

3.9 Recovery of overpayments is challenging. Unlike Council Tax, where the majority of the debt is raised at the start of the year, Housing Benefit debt occurs throughout the year. However, overall collection rates over the lifetime of the debt are at 83.21% for private tenants and 80.63% for council tenants.

In 15/16, £8.5M was recovered in respect of housing benefit overpayments. Of this, £4.3M related to the £15.3M in overpayments raised in 2015/16.

In 2014/15, £6.2M was recovered in respect of housing benefit overpayments. Of this, £3.3m related to the £11.9M in overpayments raised in 2014/15.

In 2013/14 £5M was recovered in respect of housing benefit overpayments. Of this, £2.6M related to £7.8M overpayments raised in that year.

3.10 The value of housing benefit raised since 2004 is approximately £85M, with £35M of this being raised in the past 3 years. A significant proportion of this debt is being recovered by deductions from ongoing Housing benefit entitlement or from DWP benefits and this can take some time. This is because, where deductions are made from ongoing recovery from housing benefit entitlement, or from DWP benefits, recovery is usually at amounts of £3.00, £5.00 or £11.10 depending on circumstances.

3.11 The exception relates overpayments caused by fraud where the prescribed weekly deduction is £18.25. Overpayments are deemed to be fraud overpayments where it is shown that the customer deliberately set out to claim more Housing Benefit than they would otherwise have been entitled to or deliberately failed to report a change of circumstance in order to secure higher levels of benefit. Since December 2014, all instances of fraud or potential fraud are investigated by the Single Fraud Investigation Service (SFIS) which is part of DWP. The Government removed a local authority's powers to investigate benefit fraud and local authority Benefit Fraud investigators were transferred to DWP to help form the Single Fraud Investigation Service.

3.12 Should the invoice not be paid, then further action is usually undertaken by the Council to recover the outstanding debt. The decision to undertake further action depends on the value and nature of the overpayment and the circumstances of the debtor.

Bad Debt Provision

3.13 Based on activity to date, the current collection rates over the lifetime of the debt are 83.21% for private tenants and 80.63% for council tenants, which is up from 75% and 73% respectively in 2003/04. Part of this increase is due to the expanded use of recovering the overpayment from a customer's ongoing benefit entitlement.

3.14 A bad debt provision is made each year to mitigate against the possibility of not being able to recover all of the outstanding debt. The methodology on how to calculate this provision was agreed with the auditors KMPG some years ago and takes account of the most up to date information on collection rates. This means that the provision required is adjusted every year to ensure that any increases or decreases in recovery is reflected.

3.15 This current bad debt provision has been increased as it begins to take account of the implications arising from the implementation of Universal Credit. This is because the wider roll out of Universal Credit is expected to have a detrimental impact on the Council's ability to recover outstanding housing benefit debt. This is covered in more detail below

Universal Credit

3.16 Universal Credit is one of the main elements of the Governments Welfare Reform programme that will replace a range of existing benefits for those of working age. Once Universal Credit is rolled out in full approximately 55k housing benefit claimants in Leeds will be claiming Universal Credit.

3.17 Universal Credit went live in Leeds in February 2016. Roll out is currently limited to new single job seeking claimants and therefore numbers have been limited. To date just over 3000 have claimed Universal Credit, of which approximately 700 are claiming help with housing costs from Universal Credit rather than claiming housing benefit.

3.18 Whilst numbers to date are minimal, volumes will increase as DWP look to bring more client groups onto the new benefit. From 2019, there will be no new housing benefit claims for working age claimants and DWP is expected to start the process to migrate the remaining caseload currently in receipt of housing benefit. This is expected to take until 2022 to complete. As a direct consequence of this, the Council will see a steady decline in housing benefit caseload up until 2022 when migration of the existing working age caseload should be complete.

3.19 The roll out of Universal Credit and the corresponding reduction in HB cases will have implications for the council. Firstly, the total value of overpayments will decline and for a council that recovers more than the subsidy it loses, this represents a loss of incomes. It also removes the opportunity to recover outstanding debts from ongoing Housing benefit entitlement and may impact on the ability to recover from DWP benefits which are replaced by Universal Credit. This could have implications for bad debt provision. These issues will form part of the Council's financial planning as Universal Credit rollout dates are confirmed.

4 Corporate considerations

4.1 Consultation and engagement

4.1.1 The report is for information only and does not require consultation.

4.2 Equality and diversity / cohesion and integration

4.2.1 Not applicable.

4.3 Council policies and best council plan

4.3.1 Financial Regulations (2) Income & (7) Budget Management.

4.4 Resources and value for money

4.4.1 The report itself does not require any resource allocation.

4.5 Legal Implications, access to information and call In

4.5.1 There are no specific legal implications or access to information issues with this report.

4.6 Risk management

4.6.1 It is likely that Universal Credit will impact on both the future level of housing benefit overpayments raised and the level of collection. Some allowance has been made already within the bad debt provision but further work is required once roll out dates are more certain.

5 Conclusions

5.1 The Council's Benefit makes every effort to deliver a secure and accurate benefits service. However, overpayments are an unavoidable feature of ay means-tested benefit. Where overpayments occur, a range of recovery options are used to recover the debt and over the life time of the debt between 80% and 83% of debts are recovered. This helps ensure that the Council does not suffer financially from DWP's reduced subsidy scheme in relation to overpayments.

5.2 Universal Credit will impact on both the future level of housing benefit overpayments raised and the level of collection.

6 Recommendations

6.1 Corporate Governance & Audit Committee is requested to note the information in the report and recognise the assurance provided through regular audit, both internal and external, of the Benefits Service.

7 Background documents

7.1 None

Agenda Item 8

Report author:	Mary Hasnip
Tel:	x74722

Report of **the Deputy Chief Executive**

Report to **Corporate Governance and Audit Committee**

Date: **16th September 2016**

Subject: **Approval of the Audited Statement of Accounts and KPMG Audit Report**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☒ No
Is the decision eligible for Call-In?	☐ Yes	☒ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ No

Summary of main issues

1. KPMG have completed their audit of the final accounts, and the report of their findings is attached. The main points are that :
   - KPMG anticipate being able to issue an unqualified opinion on the 2015/16 Statement of Accounts;
   - There are no unadjusted audit differences affecting the financial statements;
   - The review of the Annual Governance Statement has concluded that it is not misleading or inconsistent with information they are aware of from their audit of the financial statements, and that it complies with CIPFA/SOLACE guidance;
   - The review of value for money arrangements has concluded that the Council has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.
2. The accounts have been certified by the Responsible Finance Officer as a true and fair view of the Council's financial position as at 31st March 2016.

Recommendations

3. Members are asked to receive the report of the Council's external auditors on the 2015/16 accounts and to note that there are no unadjusted audit differences to the accounts.

4. Members are asked to approve the final audited 2015/16 Statement of Accounts and the Chair is asked to acknowledge the approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts.

5. On the basis of the assurances received, the Chair is asked to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.

6. Members are asked to note KPMG's VFM conclusion that the council has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

1 Purpose of this report

1.1 At its previous meeting in June, the Committee considered the unaudited 2015/16 Statement of Accounts prior to their being made available for public inspection. Under this Committee's terms of reference, members are now required to approve the Council's final audited Statement of Accounts and to consider any material amendments identified by the Council or recommended by the auditors.

2 Background information

2.1 In accordance with the Accounts and Audit Regulations 2015, the Council's Responsible Financial Officer, the Deputy Chief Executive, has certified that the Statement of Accounts presents a true and fair view of the financial position of the Council. On completion of the Audit, the regulations also require that the accounts are approved by resolution of a Committee and published, together with the auditor's opinion and report.

3 Main issues

3.1 Key External Audit Findings

3.1.1 Audit Opinion

KPMG have determined that the 2015/16 accounts give a true and fair view of the Council's financial position and they are therefore proposing to issue an unqualified audit opinion.

3.1.2 Audit Differences

On conclusion of the audit, KPMG identified no unadjusted audit differences which required amendment to the accounts.

3.1.3 Audit Risks

KPMG's Financial Statements Audit Plan, as reported to this Committee on 18th March 2016, identified one area of significant risk in compiling the financial statements for 2015/16. This was the valuation of property, plant and equipment. KPMG have now audited this area and have identified one valuation which they wished to comment on, given its materiality. The council's new waste treatment facility acquired under a PFI contract has been valued on a DRC (depreciated replacement cost) basis, as is required for specialist assets for which there is no active market. KPMG have requested a specific item within the Management Representation letter confirming that the valuation complies with accounting standards and RICS (Royal Institute of Chartered Surveyors) guidance. Officers from Asset Management have confirmed that they can give an assurance that this is the case.

3.1.4 Audit recommendations

KPMG have made one recommendation in relation to processes for reviewing related party transactions for Members and senior officers. Related parties are organisations or individuals with whom the council could enter into transactions with other than on an arms-length commercial basis, because of a relationship that exists between them and the council. The council had agreed with a previous KPMG team some years ago that the disclosures for both Members and senior officers would consist of an explanation of the council's governance arrangements which ensure that Members and officers do not take part in decisions in which they could be seen to have an interest, thus removing the potential for transactions to be on a non-arms-length basis. However the current KPMG team have recommended that the council reviews this approach and re-introduces a process for checking the detail of related party transactions for Members and senior officers. This recommendation will be addressed as part of the 2016/17 accounts process.

In addition KPMG's report notes that their review of IT controls has identified some areas for improvement, which will be covered in detail in a separate report to the next meeting of the committee.

3.1.5 Use of Resources

KPMG are required to report to those charged with governance, any governance issues identified when discharging their statutory audit responsibilities. They have therefore included in their report an update on the Council's arrangements to secure value for money in its use of resources.

KPMG have concluded that the Council has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

3.1.6 Review of the Annual Governance Statement

KPMG have confirmed that, in their opinion, the Annual Governance Statement is not misleading or inconsistent with other information they are aware of from their audit of the financial statements, and that it complies with the CIPFA/SOLACE guidance 'Delivering Good Governance in Local Government : A Framework'.

3.2 Post Balance Sheet Events and other significant amendments

3.2.1 Under proper accounting practice the Council is required to consider any post balance sheet events which, if known at the time of the accounts being produced, would have significantly altered the Council's financial statements. If such events have occurred then the Council is required to amend the accounts if the cumulative value of the events would have a material impact on the Council's financial statements. Such events must be considered up until this Committee approves the final accounts and the auditors provide their audit certificate.

3.2.2 As at the 7th September the council has identified one post balance sheet event which is sufficiently material to require an adjustment to be made to the final accounts. The provision for appeals on business rates has been increased by £3m to £23.2m. The increase is partly as a result of additional information on the Valuation Office's approach to appeals in the Trinity area, and partly based on settled appeals during 2016/17. £1.5m of this increase will fall upon the council in future years.

3.2.3 As a result of the increase in the business rates appeals provision, the council's levy payable to the Leeds City Region pool has reduced by £0.3m. The accrual for this payment has therefore been reduced, and the amount has instead been added to reserves.

3.2.4 In addition, the council has made a number of significant amendments to the accounts since the draft accounts were presented to the committee in June. Officers have reviewed the revaluations of fixed assets over the summer and identified corrections which increase the value of the council's assets by a net £0.3m, with an increase of £2.6m in General Fund assets and a £2.3m reduction in the value of HRA dwellings classed as 'Assets held for sale'. The correction to the value of HRA dwellings involved an increase of £16.3m in HRA impairment charges and a reduction of £14m in the loss on disposal of fixed assets.

3.2.5 Following the above changes, the final accounts show an increase in the Council's net worth for the year of £65m, in comparison to the £66m shown in the draft accounts.

3.2.6 As outlined in para 3.2.1 above, any post balance sheet events must be considered up until the accounts are approved. A verbal update will be provided at Committee to confirm the final position.

3.3 Public Inspection Queries, Questions to the Auditors and Objections

3.3.1 Under the statutory timescales for public inspection of the accounts, the Council has had no requests for information from members of the public.

3.3.2 Under statute, local electors have the right to question the auditors and request either an amendment to the accounts or the issuing of a public inspection report. One individual who stated that they were an elector contacted KPMG with a series of questions and an objection, all of which related to the council's use of LOBO (lender option borrower option) loans. However, on investigation KPMG have discovered that the individual was not a registered elector for Leeds. They have therefore concluded that the objection is not eligible to be considered under the relevant legislation.

3.3.3 KPMG have however satisfied themselves as part of their audit work that the Council's use of LOBO loans is appropriate, and that the issues raised in the letter do not give cause for concern.

3.4 Management Representation letter

3.4.1 The auditors are required by the Audit Commission's Code of Audit Practice to undertake the audit work on the accounts in compliance with International Standards on Auditing (ISAs). ISAs contain a mixture of mandatory procedures and explanatory guidance. Within the mandatory procedures are requirements to obtain written representations from management on certain matters material to the audit opinion. The management representation letter is designed to give KPMG such assurances. In respect of the 2015/16 accounts the letter is attached as **Appendix A** to this report. After consultation with appropriate officers, the Deputy Chief Executive has signed to confirm that officers are not aware of any compliance issues on the representation matters raised in the letter.

3.4.2 The Committee is asked to consider whether members are aware of any issues they want to bring to the auditors attention in respect of the matters addressed in the management representation letter. If there are no such issues the Committee is asked to agree that the Chair can sign the letter on behalf of the Committee.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 The audit report does not raise any issues requiring consultation or engagement with the public, ward members or Councillors.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 There are no issues regarding equality, diversity, cohesion and integration.

4.3 Council policies and Best Council Plan

4.3.1 Under this Committee's terms of reference members are required to consider the Council's arrangements relating to external audit, including the receipt of external audit reports. This is to provide a basis for gaining the necessary assurance regarding governance prior to the approval of the Council's accounts.

4.4 Resources and value for money

4.4.1 KPMG's report includes their opinion as to whether the Council has proper arrangements for securing value for money.

4.5 Legal Implications, Access to Information and Call In

4.5.1 The Accounts and Audit Regulations 2015 require the audited Statement of Accounts to be published before the 30th September. Under this Committee's terms of reference, members are required to approve the Council's final audited Statement of Accounts and consider any material amendments recommended by the auditors.

4.5.2 As this is a factual report based on past financial information none of the information enclosed is deemed to be sensitive or requesting decisions going forward, and therefore raises no issues for access to information or call in.

4.6 Risk Management

4.6.1 KPMG have not identified any significant risks in their recommendations.

5 Conclusions

5.1 The external audit report provides the following assurances to members :

- An unqualified opinion on the 2015/16 Statement of accounts.
- A value for money conclusion that the has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.
- Confirmation that in the auditor's opinion the Council's Annual Governance Statement is not misleading or inconsistent with other information they are aware of from their audit of the financial statements, and that it complies with CIPFA/SOLACE guidance.

5.2 There are no high priority recommendations raised by KPMG.

5.3 There are no outstanding objections to the accounts from electors.

6 Recommendations

6.1 Members are asked to receive the report of the Council's external auditors on the 2015/16 accounts and to note that there are no unadjusted audit differences to the accounts.

6.2 Members are asked to approve the final audited 2015/16 Statement of Accounts and the Chair is asked to acknowledge the approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts.

6.3 On the basis of assurances received, the Chair is asked to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.

6.4 Members are asked to note KPMG's VFM conclusion that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

7 Background documents[1]

7.1 None.

[1] The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Leeds CITY COUNCIL

Tim Cutler
Partner
KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

A T Gay
Deputy Chief Executive
Selectapost 3
Civic Hall
Leeds
LS1 1JF

Contact: Doug Meeson
Tel: 0113 247 4250
Fax: 0113 247 4346
Email: Doug.meeson@leeds.gov.uk

16th September 2016

Dear Tim,

This representation letter is provided in connection with your audit of the financial statements of Leeds City Council ("the Authority"), for the year ended 31 March 2016, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended; and

ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16

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

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

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

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:

   i. give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended; and

   ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Information provided

5. 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.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority confirms the following:

   i) 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.

   Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

   ii) The Authority has disclosed to you all information in relation to:

   a) 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

   b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

   In respect of the above, 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.

8. 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.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. 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. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

11. The Authority confirms that:

    a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
    b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

12. 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 defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

    The Authority further confirms that:

    a) 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;
        - funded or unfunded; and
        - approved or unapproved,

    have been identified and properly accounted for; and

    b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

- The Authority has valued the PFI Residual Waste Treatment Facility based on the build costs in the PFI model as a proxy for depreciation replacement cost. This valuation complies with the appropriate RICS guidance and relevant accounting standards.

This letter was tabled and agreed at the meeting of the Corporate Governance and Audit Committee on 16th September 2016.

Yours faithfully,

Deputy Chief Executive

Chair, Corporate Governance and Audit Committee

Appendix to the Authority Representation Letter of Leeds City Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period
- A Balance Sheet as at the end of the period
- A Movement in Reserves Statement for the period
- A Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

> "Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:
   i. has control or joint control over the reporting entity;
   ii. has significant influence over the reporting entity; or
   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
   i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   iii. Both entities are joint ventures of the same third party.
   iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
   vi. The entity is controlled, or jointly controlled by a person identified in (a).
   vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

In recognition of the circumstances arising in certain countries whereby governments hold large investments in entities, and furthermore, as a result of government "bail-outs" and financial support provided to various entities, resulting from the economic downturn, revised IAS 24.25 states the following, in respect of government-related entities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

a) a government that has control, joint control or significant influence over the reporting entity; and
b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

External Audit Report 2015/16

Leeds City Council

September 2016

Contents

The contacts at KPMG in connection with this report are:

Tim Cutler
Partner

KPMG LLP (UK)

Tel: 0161 246 4774

tim.cutler@kpmg.co.uk

Andrew Smith
Director

KPMG LLP (UK)

Tel: 0161 246 4314

andrew.smith2@kpmg.co.uk

Rob Walker
Manager

KPMG LLP (UK)

Tel: 0113 231 3619

rob.walker@kpmg.co.uk

Elizabeth Middleton
Assistant Manager

KPMG LLP (UK)

Tel: : 0113 231 3509

elizabeth.middleton@kpmg.co.uk

Page 34

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Leeds City Council ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in March 2016, set out the four stages of our financial statements audit process.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July and August 2016.

It also includes any additional findings in respect of our control evaluation in respect of our work on IT controls.

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 2015/16 explained our risk-based approach to VFM work. We have now completed our detailed work to support our 2015/16 VFM conclusion. We have:

- Assessed the potential VFM risks and identified the residual audit risks for our VFM conclusion; and
- Considered the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and

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 2015/16 financial statements of the Authority and the fund.
- 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 year recommendations.

Acknowledgements

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

KPMG

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Section two: Headlines

Headlines

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

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

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016.
Audit adjustments	Our audit has not identified any material audit adjustments, which impact on: — the balance on the general fund as at 31 March 2016; — the deficit on provision of services for the year; or — the net worth of the Authority as at 31 March 2016. Our audit identified and the authority's internal process found a small number of non-material financial and disclosure errors or omissions in the financial statements. The key issues are set out in Section 3 page 9 of this report.
Key financial statements audit risks	We identified one key financial statements audit risk in our 15/16 External audit plan issued in March 2016 relating to the valuation of Property Plant and Equipment (PPE) .This is a very material value on the balance sheet and it is an estimate based on the professional judgement of your in-house and external valuers. We have worked with officers throughout the year to discuss this key risk and our detailed findings are reported in section 3 of this report. We identified one issue over the valuation of the new PFI Residual Waste Treatment Facility which is discussed in more detail in the Significant Risks table on page 10.
Accounts production and audit process	We received complete draft accounts by 28 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. We have noted an improvement in the quality of the supporting working papers. Officers dealt efficiently with the majority of audit queries and the audit process has been completed within the planned timescales. The Authority has implemented fully or partially all of the recommendations in our *ISA 260 Report 2014/15* relating to the financial statements. As in previous years, we will debrief with the Accounting Team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particular we would like to thank Authority Officers who were available throughout the audit visit to answer our queries. We identified a number of improvements to your IT arrangements which are detailed in Section 3 on page 14 and are covered in a separate report. We raised one recommendation over the Accounts process shown in Appendix 1.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Headlines (cont.)

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

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

VFM conclusion and risk areas	We identified one significant VFM risk in our External audit plan 2015/16 issued in March 2016 on Financial Resilience. We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in this VFM risk areas. Through the work completed so far, we have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: — PFI assets — Related Party Transactions — Whole of Government Accounts submission You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Authority and we draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We have requested a specific representation over the valuation of the new PFI Residual Waste Treatment Facility. We confirm that we have complied with requirements on objectivity and independence in relation to this year’s audit of the Authority’s financial statements.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Section three: Financial Statements

Proposed opinion and audit differences

We have not identified any issues in the course of the audit that are considered to be material.

Page 41

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Corporate Governanace and Audit Committee on 16th September 2016.

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 £20 million. Audit differences below £0.6 million are not considered significant. Appendix two provides more detail.

We did not identify any material misstatements. We identified a number of issues that had already been adjusted by management. Of the adjustments identified, the most significant in monetary value are as follows:

- On the Comprehensive Income and Expenditure Statement (CIES) there is a £7.4 million misclassification from Environmental and Regulatory Services to Other Housing Services relating to the transfer of a service between directorates.
- On the CIES there is a £1.7 million misclassification from Cultural and Related Service to Environment and Regulatory Services due to an impairment shown on the wrong line in the draft statements.
- An error in the treatment of Housing Revenue Account dwellings previously classed as Held for Sale increases impairment within gross expenditure by £16.3 million and reduces the Gain or loss on the disposal of Fixed assets by £14.1 million. This also impacts on the Balance Sheet with Assets Held for Sale and the Capital Adjustment Account both reduced by £2.2 million.
- A valuation correction on a school reduces the impairment shown within gross expenditure by £5.7 million on the Children's and Education line, and increases the impairment within the Deficit on Revaluation of Fixed Assets by £2.9 million in the CIES. On the Balance Sheet this adjustment also increases the value of Property Plant and Equipment by £2.8, the impairment of £2.9m is recognised against the Revaluation Reserve and the resulting £5.7m adjustment is taken to the Capital Adjustment Account.

These changes have no impact on the financial position of the Authority.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). The Authority has addressed these issues 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.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

Page 42

In our External Audit Plan 2015/16, presented to you in March 2016, we identified one significant risk affecting the Authority's 2015/16 financial statements. We have now completed our testing of this area 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 Authority.

Significant Risk

Risk

In 2014/15 valuation of PPE was £3.9bn. This is a very material value on the balance sheet and is an estimate based on professional judgement by your in-house valuers. We did see changes to the draft accounts in both 2014/15 when the value of schools was amended following an internal review and 2013/14 when the valuation update was not completed before production of the draft accounts in July.

Findings

During our audit we evaluated the reliability and professional competence of the in-house and external valuer, as management's expert, to consider whether we could rely on their work. We concluded that the valuers have the professional competence, experience and objectivity to provide a valuation of PPE that we can rely on. We also tested a sample of revalued assets to confirm the value of the asset on the fixed asset register reconciled to the valuation report at the date the asset was revalued and the accounting entries were processed correctly in accordance with the Code.

We identified one issue over the valuation of the PFI Residual Waste Treatment Facility disclosed in Note 9 at a cost of £138.8 million which was new in 2015/16. When new assets are completed, buildings are often subject to impairment because the costs of building are often greater than the valuation. Your internal valuers considered the need for an impairment on the Waste Treatment asset concluding that build costs in the PFI model were the most relevant piece of information on which to base the valuation. The professional body RICS, currently do not provide any build cost indices to carry out a full DRC valuation for such a specialised asset. The Council's expert considers that when fully operational for a number of years, there will be clearer evidence in which to consider other valuation methodologies such as an income based approach when this is known.

We have asked management to make a specific representation in respect of this asset to confirm their view of the correct valuation methodology.

.

KPMG

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there are limited incentives and opportunities to manipulate the way income is recognised since central government is the main source of income.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

KPMG

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Other areas of focus (cont.)

Page 44

In our External Audit Plan 2015/16, presented to you in March 2016, we identified 2 areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each area of audit focus.

Transport Infrastructure Assets

A major change to the 2016/17 statements is the application of LAAP Bulletin 100 adopting the measurement requirements of the Transport Code. Assets will be revalued from Historic Cost to Depreciated Replacement Cost supported by detailed Asset Management Records. These are required to provide the detail to support the new valuation a significant change to the arrangements. Ensuring that the necessary records are in place during early 2016 is important to ensure delivery of this change.

Findings

Although this change has not impacted on the 2015/16 financial statements and therefore not applicable to this year's audit opinion, we have continued to monitor progress in setting up the systems to support this change. The Authority has the relevant asset information on the Highways Asset which should form the basis for the accounting records. Work is on-going to establish the most effective interface for the asset record and finance systems.

Better Care Fund

The Better Care Fund (BCF) came into operation on 1 April 2015 with £3.46 billion of NHS England's funding to Clinical Commissioning Groups (CCGs) ring-fenced for the establishment of the fund in 2015/16. The Care Act 2014 requires a pooled fund to be established between CCGs and local authorities in the form of a section 75 agreement. Local BCF arrangements may be complex and varied, involving a number of valid commissioning and accounting arrangements that raise risks of misunderstanding, inconsistencies and confusion between members of a BCF pooled budget.

Findings

The Better Care fund is supported by a detailed plan completed jointly by the Council and three Leeds Clinical Commissioning Groups The plan is managed by the BCF Partnership Board which reports to the Leeds Health and Well Being Board. We reviewed the section 75 agreement signed by the Authority and local Clinical Commissioning Groups (CCGs) and assessed the adopted accounting treatment against CIPFA guidance. The Authority accounted for the Better Care Fund transactions on a joint operation basis in line with the guidance and relevant accounting standards.

We discussed the fund with officers to understand how this operates and to confirm the processes in place to capture the financial information. We also reviewed the disclosure at Note 10d showing a total pooled budget of £58.1 million agreeing the note to the Section 75 agreement. We have no matters to report.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement.

Level of prudence

0 1 2 3 4 5 6

Audit difference | Cautious | Balanced | Optimistic | Audit difference

Acceptable range

Page 45

Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance (£m)**	**KPMG comment**
Provisions	3	3	£30.5 million *(PY: £38.4 million)*	Provisions have reduced by £7.9m. This mostly relates to the reduction in the provision for appeals against business rates valuations due to the settlement of outstanding claims. We have reviewed the basis for the calculation for each new provision and consider the provision disclosures to be proportionate and management's judgment to be balanced.
Property, Plant and Equipment (valuations / asset lives)	4	3	£4,124.5 million *(PY: £3,854.8 million)*	The overall value of PPE has increased by £269.7m. This increase mostly relates to capital additions in year of £471.2m offset by depreciation of £148.5m, however the net effect of the revaluation in year was an uplift of £25.6m. The majority of assets are revalued by an internal valuer. From our review of your approach to re-valuation and impairment of assets and the reliability of the valuers work, we concluded that a complete list was provided to the valuer and the assumptions used by the valuer were appropriate. As previously discussed in the section on significant risks we identified one specific valuation where we considered the Council's approach to be optimistic for the PFI Residual Waste Treatment Facility which is disclosed in Note 9 at a cost of £138.8 million in 2015/16. Your internal valuers considered the need for an impairment concluding that build costs in the PFI model were the most relevant piece of information on which to base the valuation. The professional body RICS, currently do not provide any build cost indices to carry out a full DRC valuation for such a specialised asset. The Council's expert considers that when fully operational for a number of years, there will be clearer evidence in which to consider other valuation methodologies such as an income based approach when this is known.
Pensions	3	3	£961.5 million *(PY: £1,005.8 million)*	The net pension liability has decreased by £44.3m – a decrease of 4%. We reviewed the assumptions underlying the Actuary's valuation of the Authority's pension liability. Our Actuarial specialists concluded that all the financial assumptions used by the Actuary fell within an acceptable range. We have therefore assessed this to be a balanced judgement.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Accounts production and audit process

We have noted an improvement in the quality of the accounts and the supporting working papers.

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

The Authority has implemented fully or partially all of the recommendations in our ISA 260 Report 2014/15.

Page 46

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has effective arrangements in place with a comprehensive set of financial monitoring report in place.
Completeness of draft accounts	We received a complete set of draft accounts on 28 June 2016.
Quality of supporting working papers	The quality of working papers provided met the standards specified in our *Accounts Audit Protocol* and improved compared to 2014/15.
Response to audit queries	Officers resolved audit queries in a reasonable time.

Additional findings in respect of the control environment for key financial systems

We have identified the following issues/weaknesses which we would like to bring to your attention:

.

Related Parties

We identified a weakness in the Authority's process for identifying related party transactions which could increase the risk of related party disclosures being incomplete. Appendix One provides further details.

IT Controls

Whilst controls overall were effective we identified scope to improve specific controls:

— The software change process for SAP Payroll and FMS had not been followed consistently. In a small number of instances SAP Payroll changes had been developed in the live system without appropriate documentation and approval. Testing confirmed that all the changes were appropriate, but the change process had not been followed and approval documentation was incomplete.

— We noted that the SAP Payroll review of user access should be strengthened to review the level of access assigned, to identify staff whose job roles have changed as the access they have will need to be amended. We identified two administrator accounts that had not had access removed when it was no longer required.

A separate report has been drafted which is being agreed with officers and will be reported to the Corporate Governance and Audit Committee at the next meeting

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report. The Authority has implemented fully or partially all of the recommendations in our *ISA 260 Report 2014/15*.

Appendix One provides further details.

KPMG

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Completion

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

Page 47

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 Leeds City Council for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and the Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix three 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 Deputy Chief Executive for presentation to the Corporate Governance and Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

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.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Section four: Value for Money

VFM Conclusion

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Page 49

Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

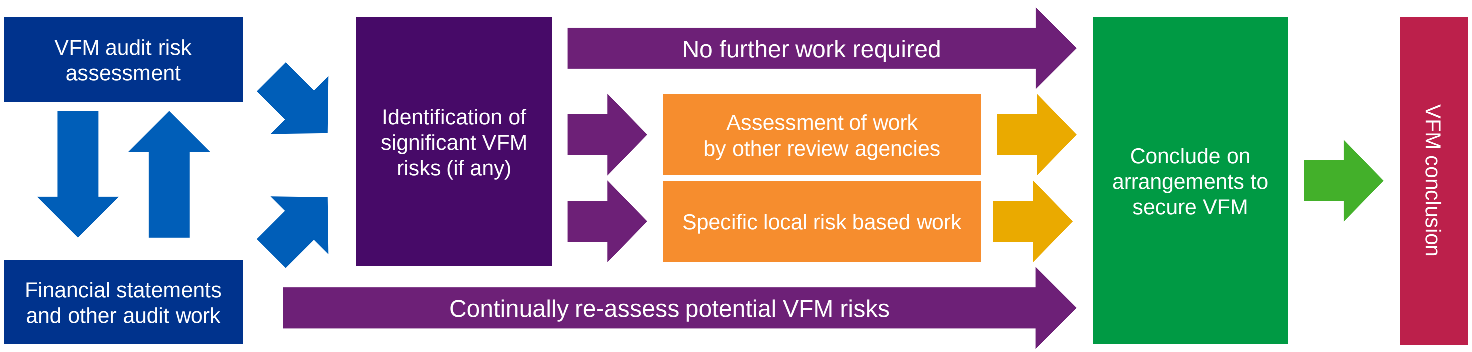
Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making	Sustainable resource deployment	Working with partners and third parties
✓ Met	✓ Met	✓ Met



© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Specific VFM Risks

We have identified a number of specific VFM risks.

In most cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

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 Authority's key business risks which are relevant to our VFM conclusion;

— Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

— Considered the results of relevant work by the Authority, 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 for some of these risks. The majority of this work is now complete and we report on this below.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Specific VFM Risks (cont.)

We have identified a number of specific VFM risks.

In most cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate

Key VFM risk	Risk description and link to VFM conclusion	Assessment
The Financial pressures facing the Authority may impact on sustainable resource deployment	There are significant financial pressures facing the Authority. General Reserves were £29.6 million in 2010/11 and were expected to reduce to £20.9 million by the end of March 2016. Although the Actual closing position was slightly better at £21.5 million by March 2016 there continues to be significant budget pressures. Business rate appeals are also creating further pressure on the financial position increasing the Authority's share of the collection fund deficit to £32.3million at the end of March 2016 compared to £27.6million at 31 March 2015.	In 2015/16 the Authority had a net budget for service expenditure of £523.8 million and this was supported by the agreed usage of £1.5m of general reserves. The Authority has met its financial target during the year with some overspend in Children's Services offset by underspend in the Environment and Housing, and Citizen's and Communities directorates. Overall, there was an underspend against the budget of £0.7 million in 2015/16, reducing the funding from reserves requirement to £0.8 million. In July the Authority reported forecasted a £2.9 million budget overspending on revenue Budgets by the end of the 2016/17 with underlying pressures in the demand-led budgets in Children's Services and Adult Social Care. However, we understand that the Authority is committed to bringing-forward actions to reduce the potential overspend in 2016/17 and enable a balanced budget. We have reviewed the financial planning arrangements in place at the Authority and have confirmed that these are appropriate. There is a detailed service and policy review process in place which will lead to the updated medium-term financial strategy being presented to the Executive Board's September meeting as part of the decision on whether or not to accept this four-year settlement. The Authority has identified that £110 million of savings will be required over the next three years to 2019/20 based on the budget offer by DCLG. The Authority recognises the financial challenge which is heavily front loaded, requiring £82 million of savings in 2017/18, and is considering how reserves can be used to support the budget over the next three years. Whilst a significant proportion of the savings have been identified the Council still needs to identify some £18m of savings to balance the medium-term strategy. We have reviewed the high level assumptions used by the Authority to prepare its budget and have found these to be in line with our knowledge and expectations. The Authority recognises the risks in relation to the use of assumptions, some of which have the potential to cause a significant impact to the budget if they are not robust, and it will need to keep these under review over the coming months. There is no overall impact on the overall VFM Conclusion.

Page 51

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Appendices

Key issues and recommendations

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

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

We will formally follow up these recommendations next year.

Page 53

Priority rating for recommendations					
❶	*Priority one*: 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.	❷	*Priority two*: 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.	❸	*Priority three*: 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.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	❷	**Related Party Transactions** There is no process to identify transactions between the Authority and commercial organisations that are related to councillors or senior officers as part of the accounts process. Audit testing was carried out in 2015/16 to ensure that there were no such transactions that were material to the Authority or the related party required disclosure **Recommendation** We recommend that the council reviews such transactions as part of the accounts process.	**Management Response** The Authority's current approach to the disclosure of related parties for Members and Senior Officers was agreed with a previous KPMG team some years ago, as part of the drive to encourage simpler local authority accounts. Given the change in emphasis from the current KPMG team, the Council will review its approach to the disclosure of related parties for the 2016/17 accounts. **Responsible officer** Principal Financial Manager May 2017.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Follow up of prior year recommendations

The Authority has implemented two of the three recommendations in our *ISA 260 Report 2014/15*.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 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 (partial)

No.	Risk	Issue and recommendation	Officer responsible and due date	Management response and status
1	❸	**Availability of Working Papers** Whilst we have noted an improvement in the quality and timeliness of production of working papers, during the course of the audit there were some delays in starting our testing in certain areas due to the availability of working papers, for example valuation reports for Property, Plant and Equipment, and data requests relating to Staff Expenses. **Recommendation** Working papers should be available in advance of the date we plan to start the work as set out in the work plan.	**Responsible officer** Principal Financial Manager (Corporate Financial Management) **Due date** 2015/16 accounts process.	**Management Response** Implemented. - The availability of working papers has further improved during the 2015/16 process. No issues have been noted with the quality or timeliness of working papers.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Follow up of prior year recommendations (cont.)

Prior year recommendations continued.

No.	Risk	Issue and recommendation	Officer responsible and due date	Management response and status
2	3	**3 Way Matching of Invoice types IN and IS** We were unable to rely upon 3 way matching (invoice to purchase order to goods received note) of invoice types IN and IS as a control during the course of our audit This was because we were only able to match 27% of these invoices to their purchase orders and good received notes. Of this 27%, only 59% matched by value. **Recommendation** The Authority should review their procedures around 3 way matching of these invoice types, and consider whether they are appropriate, whether they clearly state when it is appropriate to not have a 3 way match, and whether they are being followed.	**Responsible officer** Head of Financial Services (Business Support Centre) **Due date** March 2016	**Management response** The council's review of ordering processes is ongoing, and during the year has identified further possible areas where an individual order may not be required due to the existence of a contract. As requested by KPMG, the council has investigated the feasibility of enabling automatic tagging of such invoices. However it was found that any such tagging would require manual input, and would therefore not be 100% reliable. Given that introducing such a change would involve costs of a system development and would lead to an ongoing additional workload for processing each invoice, the council does not feel that this would be justified. The council remains satisfied that it has procedures in place to ensure that invoices are only paid when they have been properly authorised, and that the issue identified by KPMG is one of enabling global reporting of this.

KPMG

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Follow up of prior year recommendations (cont.)

Prior year recommendations continued.

Page 56

No.	Risk	Issue and recommendation	Officer responsible and due date	Management response and status
3	3	**Access to Approve Purchase Orders on FMS** We identified issues with access rights to approve purchase orders on FMS during the course of our audit. These issues fell into three categories: — It had been agreed that service user functions (such as approving purchase orders) should be removed from finance officers, however this has not yet been implemented. Although this has been agreed in principal, a conscious decision was made by the Authority not to implement this until the six monthly review in Autumn 2015. — When the ALMOs were brought back in house and therefore users roles had changed, these roles are still to be finalised and therefore the related access rights are still under review to determine whether they are appropriate. — Users at schools had been inappropriately granted access to approve purchase orders as part of the standardisation process. Schools determine their own policies around FMS access, and therefore shouldn't have been included in this exercise. **Recommendations** Timescales should be set for implementing the decision to remove service user functions for finance officers. FMS access rights for staff who came in house from the ALMOs should be reviewed to check whether their historic access rights which were carried over are still appropriate. Any future automated implementation of standardised access rights should be reviewed carefully to ensure it is appropriate for all groups of users on FMS.	**Responsible officer** Principal Financial Manager (Corporate Financial Management) **Due date** September 2015	**Management response** Access rights of finance officers to carry out service user functions are being removed as part of the 6 monthly user access review which commenced in August 2015. Restructures arising from the transfer of former ALMO staff have now been completed, and any remaining changes to these staff's FMS access rights are being picked up as part of the same exercise. We will ensure that school staff are excluded from any future standardisation exercises **Status** Implemented - No issues relating to the access rights of finance officers were identified during the 2015/16 audit.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Materiality and reporting of audit differences

For 2015/16 our materiality is £20 million for the Authority's accounts.

We have reported all audit differences over £0.6 million for the Authority's accounts.

Page 57

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in March 2016.

Materiality for the Authority's accounts was set at £20 million which equates to around 1.1 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.6m million for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

— Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

— The related safeguards that are in place.

— The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit 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.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Declaration of independence and objectivity (cont.)

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

Page 59

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.

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 Leeds City Council for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Leeds City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Fees

Our scale fee for the audit was £231,953 plus VAT (£309,270 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in March 2016. Our scale fee for certification for the HBCOUNT is £15,923 plus VAT (£22,140 in 2014/15).

Non-audit services

We have provided no non-audit services in 2015/16.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

kpmg.com/uk

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International. | Create KGS: CRT064379A

Document Classification: KPMG Confidential

Leeds
CITY COUNCIL

Statement of Accounts 2015/16

Audited figures for approval
as at 7th September 2016

Statement of Accounts 2015/16

Audited figures for approval
7 September 2016

Preface

1 Introductory Statements

2 Main Financial Statements and Explanatory Notes

3 Other Financial Statements and Explanatory Notes

Foreword

by the Deputy Chief Executive

The information contained within these accounts is presented as simply and clearly as possible. However, the accounts of such a large and diverse organisation as Leeds City Council are by their nature both technical and complex and so this foreword explains some of the statements and provides a summary of the council's financial performance for 2015/16 and its financial prospects. The foreword also aims to set this financial performance in the context of the council's overall strategic objectives and its performance in delivering its services.

1 What is included in the Statement of Accounts

The Statement of Accounts features four main statements reporting on Leeds City Council's core activities:

- The Comprehensive Income and Expenditure Statement,
- the Movement in Reserves Statement,
- the Balance Sheet, and
- the Cash Flow Statement.

The Comprehensive Income and Expenditure Statement summarises the council's financial performance for the year, and must be produced on the basis of International Financial Reporting Standards. However, there are statutory arrangements in place which mean that the amount which is chargeable to a council's general reserves for the year is different from its net income or expenditure for the year. These statutory arrangements are largely designed to change the timing over which items of income or expenditure must be paid for through council tax or rents, to ensure greater fairness for local taxpayers and council tenants. The Movement in Reserves Statement shows how the impact of the council's net comprehensive income and expenditure for the year is distributed across its usable and unusable reserves. The Balance Sheet gives the council's financial position at the end of the year, showing the value of the assets and liabilities which make up the council's overall reserves, sometimes known as its net worth. Finally the Cash Flow Statement summarises how the council's income and expenditure for the year has been reflected in cash flows to and from the council.

Each of the main statements is preceded by a short note describing its purpose, and they are followed by notes which give more information on some of the figures included in the statements.

The main statements are supplemented by two further sections:

- the Housing Revenue Account reports on the council's activities as a social landlord, which are consolidated into the main statements; and
- the Collection Fund statement reports on the collection of council tax and business rates, and on how these taxes have been distributed to the council, the government and to other local services;

These too are preceded by notes explaining their purpose and have explanatory notes.

2 Accountability and financial reporting

Local authorities are governed by a rigorous structure of controls to provide stakeholders with the confidence that public money has been properly accounted for. As part of this process of accountability the council is required to produce a set of accounts in order to inform you, as a stakeholder of the council that we have properly accounted for all of the public money we have received and spent, and that the financial standing of the council is on a secure basis. In order to provide assurance that the final published accounts can be relied upon, they must be audited by independent auditors who report on their conclusions. The council's auditors for 2015/16 are KPMG LLP.

Local electors and taxpayers have statutory rights to inspect the draft accounts before the audit is completed and to question the auditors. A period of thirty working days is designated by each council as their public inspection period, and for the 2015/16 accounts this must include the first ten working days in July 2016. To make the accounts as widely available as possible we publish both the draft and final versions on the internet at www.leeds.gov.uk/accounts (Leeds residents have free internet access at their local libraries). From the internet page you can also read the National Audit Office publication *Council accounts – a guide to your rights* and the external audit reports, e-mail me with any comments or questions you have about the accounts, or click through to the other documents mentioned above.

The council's Statement of Accounts concentrates on clear and accurate reporting of the financial position of the council in relation to a particular year. This foreword provides an overview on how the financial performance relates to the council's strategic objectives and performance. However, more detailed information on the council's priorities, strategy and performance for the services it delivers can be found in documents such as the Best Council Plan, available on the council's website (http://www.leeds.gov.uk/council/Pages/default.aspx).

3 The council's financial performance and position

The following summary of the financial performance of the council covers:

- The council's overall financial performance for the year;
- Its financial position at the end of the year; and
- The performance of statutory ring fenced accounts;

3.1 The council's financial performance for the year

As noted in section 1 above, the council is required to produce its Comprehensive Income and Expenditure Statement on the basis of accounting standards, but the net income or expenditure which affects its general fund and HRA reserves is then adjusted by statutory items. The council sets its budget for the year on the basis of the amounts chargeable to the general fund reserve and to HRA reserves. The council's financial performance against its budget for the year was reported to the Executive Board on 22nd June 2016 (a copy of the report is available on the council's website). This report identified an underspend of £0.4m on the £523.8m budget for service expenditure. As the 2015/16 budget was supported by the agreed usage of £1.5m of general reserves, this underspend reduced the required amount of reserves to fund the budget to £1.1m. Subsequently, an increase in the level of the business rates appeals provision has meant a reduction of £0.3m in the council's business rates levy for the year, meaning a revised use of the general fund reserve of £0.8m. This was reported at a later Executive Board meeting.

The 2015/16 Comprehensive Income and Expenditure Statement (CI&E a/c) takes a wider view of the financial performance of the council and shows a surplus for the year of £64.8m (a £1.7m deficit in 2014/15). This surplus represents the amount that the council's net worth has increased over the year. This is shown on the Balance Sheet as an increase in net assets less liabilities between 31st March 2015 and 31st March 2016.

a Performance against budget for the year

Whilst recognising that the Comprehensive Income and Expenditure Statement provides a number of important indicators of the financial health of the council, it is the £1.1m deficit which has the immediate impact on taxpayers and dictates the level of available General Fund reserves.

The 2015/16 budget was set in the context of continuing reductions in government grant together with pressures on spending, resulting in the council needing to identify significant savings. The budget included some difficult and challenging decisions, and the demand-led budgets within Children's services have continued to be under pressure. However other savings have been identified and additional income secured. The main issues contributing to the final outturn position were as follows:

- Children's Services – overall, the Children's Services directorate overspent by £4.3m. Within this figure there was an overspend of £5.8m in the cost of placements for children looked after by the council, and an overspend of £2m in the cost of home to school transport, due to a rise in the number of children needing education outside of the city. These overspends were partly offset by additional income of £1.6m from the Health Service to fund Children's Centres, and additional income of £1.0m from the Schools Forum and £0.8m of higher needs Dedicated Schools Grant.

- Staffing issues – a £2m reserve was established in 2014/15 to meet the cost of severance payments due under the Early Leavers Initiative, which aims to generate long term savings by reducing staffing numbers. During 2015/16, the council decided to carry forward this reserve to meet the future costs of the scheme, with the in-year severance costs being met from the General Fund, leading to an additional cost of £2.7m. A further £1m cost has arisen as a result of a regional collective agreement in respect of a recent court ruling on holiday pay enhancements. The agreement applies an increase to annual leave payments to reflect amounts such as overtime payments which are not currently paid to employees on annual leave.

- Environment and Housing – the directorate's budget was underspent by £1.6m. The biggest factor in this was an underspend of £1.4m in parking services, arising from a combination of staffing savings and additional income generated. There was also an underspend of £0.7m in the waste management budget, largely due to additional grant income from the new PFI waste treatment plant becoming operational earlier than was originally scheduled.

- Citizens and communities – there was an underspend of £1.5m across the directorate's budget for the year. This included £0.6m from the additional recovery of housing benefits overpayments.

- The City Development and Strategy and Resources directorates showed underspends of £0.4m and £0.5m respectively, arising from the achievement of a variety of savings plans. The remaining directorates – Adults Social Care, Public Health and Civic Enterprise Leeds, showed only minor variations from their overall budgets.

- Flood relief grant – following the damage caused by Storm Eva, the council received £4.7m of government grant to fund both direct payments to those affected and reliefs in council tax and business rates. Of this grant, £2.3m has been carried forward in an earmarked reserve to be allocated in 2016/17. It should be noted that whilst £1.2m of grant in relation to local tax reliefs paid out has been recognised in the general fund in 2015/16, the impact in terms of reduced precepts from the Collection Fund will not be passed through to the general fund until 2017/18.

- Business rates levy – the council is required to make a levy contribution to the Leeds City Region Business Rates Pool, which is determined by the net business rates income generated in the Collection Fund for the year. The levy payable for 2015/16 was £2.4m less than was budgeted for. Further details of the reasons for this are given in the section on the Collection Fund in 3.4 (ii) below.

b **Other factors affecting comprehensive income and expenditure**

In addition to the in year use of £0.8m from the General Fund reserve, the other main factors which have contributed to the increase in the net worth of the council are:

i) For 2015/16 the council's net pensions liability has decreased, resulting in a £52m net credit to the reported bottom line of the Comprehensive Income and Expenditure Statement. Although there has been a decrease in the council's pension fund assets, this has been more than offset by a significant reduction in the actuarial valuation of the fund's future liabilities. The pension liabilities are discounted at a rate based on corporate bonds, and the increased market yields seen on such bonds at the balance sheet date has resulted in a lower current valuation for the pension liabilities. For consideration of how this compares with the latest actuarial review of the pension fund see section 3.2 (Financial Position as at 31st March 2016) below.

ii) The Comprehensive Income and Expenditure Statement receives a charge for the depreciation of fixed assets. This charge is an indication of the cost the council will have to incur, through borrowing and repairs and maintenance budgets, in order to maintain the standard of our buildings and other assets. For 2015/16 this amounted to a cost of £149m (£141m in 2014/15). The Statement also includes impairment charges, which reflect where the value of assets has fallen either because of falls in prices or because of deterioration in the assets. For 2015/16 impairment charges amounted to £102m (£33m in 2014/15). The majority of this (£94m) relates to HRA dwellings, where spending on acquisitions and refurbishments was greater than the resulting increase in the social housing value of the dwellings.

iii) The Comprehensive Income and Expenditure Statement also records changes in the valuations of fixed assets. In 2015/16 these amounted to gains of £140m (gains of £170m in 2014/15).

iv) Under International Financial Reporting Standards (IFRS) any grants for which any conditions imposed by the granting body have already been met, or where there is a reasonable expectation that the conditions will be met, must be recognised in the CI&E account. This means that capital grants received are recognised as income in the CI&E account, but due to statutory restrictions on how they can be spent they are then carried forward on the balance sheet as earmarked capital reserves to meet planned expenditure in future years. For 2015/16, £86.9m of income from capital grants was recognised.

v) The Comprehensive Income and Expenditure Statement also recognises any gains or losses on the disposal of fixed assets. For 2015/16 this amounted to a loss of £36.6m (£33.7m in 2014/15), and included a £44m loss arising from the transfer of a number of schools to become academies. The council has no choice in whether to transfer these assets and does not receive any consideration for their transfer.

vi) Whilst the precepts relating to council tax and business rates credited to the General Fund each year are fixed when the budget is set, the Comprehensive Income and Expenditure Statement reflects the actual council tax and business rates income received during the year. For 2015/16, the income recognised from business rates was £13.4m lower than the precept set for the year. However council tax income recognised was £2.8m higher than the level of the precept. Further information on the performance of the Collection Fund for the year is given in section 3.4 (ii) below.

Whilst financial reporting under IFRS provides an important indication as to the financial health of the council, the amounts actually chargeable to a local authority's council tax and its General Fund reserves are controlled by legislation, and include a number of statutory and accounting adjustments. Of the above factors the pension losses, the depreciation and impairment charges and the losses on disposal of fixed assets are reversed under statute. The reason for these statutory overrides is that these liabilities will materialise over a number of years, if at all, and as such the Government feels that it would not be reasonable for this liability to fall only on current taxpayers. However depreciation charges are replaced by a requirement to set aside a prudent amount for the repayment of debt, known as the Minimum Revenue Provision.

3.2 Financial position as at 31st March 2016

As identified in the CI&E a/c, the council's assets net of liabilities have risen by £64.8m and now stand at £853.4m. Whilst section (a) i) – v) above identifies the main reasons for this increase, the council's balance sheet also contains other transactions, mainly relating to capital, which impact on the council's financial standing. The following section analyses the main issues impacting on the council's balance sheet as at 31st March 2016:

- The council's overall pension deficit has fallen slightly to £1,055m. The majority of the net liability relates to the council's share of the pension deficit on the West Yorkshire Pension Fund and represents the difference between the value of the council's pension fund assets at 31st March 2016 and the estimated present value of the future pension payments to which it was committed at that date. These pension liabilities will be paid out over a period of many years, during which time the assets will continue to generate returns towards funding them. The extent to which the expected future returns on assets are sufficient to cover the estimated net liabilities was considered by the actuaries in their full actuarial review of the pension fund, carried out as at 31st March 2013. Whilst the actuarial review is done on a forward looking basis, in contrast to the deficit in the annual accounts which does not take into account expected future earnings from assets, it does provide a good indication of the future standing of the pension fund based on the fund's position at 31st March 2013. The actuarial review concluded that the pension fund was 96% funded, with a predicted deficit for the whole of the West Yorkshire Pension Fund of £454m. Based on the actuarial review, the council has established appropriate employer contribution rates in order to move the fund towards a fully funded position over a 22 year recovery period. The next actuarial review of the pension fund will be carried out as at 31st March 2016, and the council expects to receive the results of this review in late 2016. The results of the latest review will be used to set future employer contribution rates.
- Overall the value of the council's tangible and intangible fixed assets have risen by £299m. There are a number of factors affecting the value of our assets but as outlined in section a (ii), (iii) and (v) above the largest impacts are due to the depreciation, revaluations and the disposal of assets, including the transfer of a number of schools to

become Academies. The other major factor impacting on the carrying value of our assets is additional capital spend in year of £473m.

It is also worth noting that the overall market value of the council's assets is considerably higher than the balance sheet value, which reflects existing use for operational assets. In particular the market value of our housing stock is around £4.6bn (current social value £1.4bn) and our infrastructure assets are currently only recognised at depreciated historic cost (£696m) when their market value would run into billions of pounds.

- Creditors have reduced by £19.3m. The primary reason for this is that the figure for 2014/15 included £26m held on behalf of the former Leeds City Region Joint Committee, which has been transferred to the West Yorkshire Combined Authority.
- Overall the council's usable reserves have fallen from £390m in 2014/15 to £320m in 2015/16, a decrease of £70m. The majority of these £320m of useable reserves are ring fenced (£269m) and are not available to support general expenditure. The main ring fenced reserves as at 31st March 2016 are:
    - School based reserves £38m;
    - Revenue and capital grants received in advance of planned expenditure £134m;
    - Housing Revenue Account reserves £38m, statutorily ring fenced to the provision of local authority housing;
    - Major repairs reserve £32m, ring fenced to major repairs to council houses;
    - Useable Capital Receipts reserve £26m, to finance capital expenditure, partly ring fenced to council houses.

  The remaining £51m of reserves is made up of the £21m General Fund reserve and £30m of earmarked reserves.
- Overall debt net of treasury management investments stands at £2,320m (£1,979m in 2014/15) made up of long term borrowing £1,367m (£1,358m in 2014/15), borrowing repayable on demand or within one year of £278m (£99m in 2014/15), credit arrangements and deferred income under Private Finance Initiative (PFI) schemes of £677m (£550m in 2014/15) and finance lease liabilities of £2m (£3m in 2014/15). The council held no treasury management investments at the end of the financial year (£30m in 2014/15)

  The level of overall net debt has increased by £341m from 2014/15. The main movements in respect of this debt position are:
    - A net increase of £127m in PFI liabilities, reflecting new liabilities of £138m from the acquisition of a waste treatment plant and £61m new liabilities on a scheme within the HRA to provide new social housing, less repayments during the year of £72m. It should be noted that within the liability recognised for the waste treatment facility is an element valued at £26m and known as a deferred income balance, which will be met by granting the operator the right to use the asset to earn income from third parties, rather than being met by payments from the council;
    - An increase of £215m in borrowing net of investments, reflecting the extent to which new capital expenditure financed by borrowing has not been funded from increased reserves and balances.

  The council's level of external borrowing is primarily determined by its need to finance capital expenditure, but the council seeks to minimise its actual external borrowing by offsetting the revenue balances it holds against its capital financing requirement.

- Short and long term provisions have reduced by £8.0m. This is largely due to a reduction in the level of provisions for appeals against business rates valuations, reflecting the settlement of many appeals which were outstanding at the start of the year.

3.3 Cash flows during the year

The cash flow statement shows how the above financial position has been reflected in cash movements during the year. In terms of treasury management and financing activities, the turnover of short term borrowing has increased during the year, reflecting the reduced availability of revenue balances to offset the borrowing requirement. This also resulted in the higher level of short term borrowing shown on the balance sheet at the end of the year (see section 3.2 above). Allied to this the council reduced its use of short term investments during the year, due to the reduced level of returns available and the desire to minimise risk.

Within operational cashflows, reductions in the level of government grants can be seen in the cash inflows, and a reduction in the cash outflows on employee costs reflects the council's ongoing efforts to reduce the size of its workforce.

3.4 Ring-fenced accounts

The following is a summary of the financial performance of the statutory ring fenced accounts managed by the council. The Housing Revenue Account (HRA) shows the council's financial performance in its provision of social housing. The HRA is consolidated into the council's overall financial statements. The Collection Fund account reflects the statutory requirement to establish and maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and Business Rates, and this account is not consolidated into the council's accounts. However the council's Comprehensive Income and Expenditure Account receives a share of the collected Council Tax and Business Rates.

i The Housing Revenue Account (HRA)

The HRA Income & Expenditure Account shows a deficit for the year of £46.8m. This deficit is then adjusted to reflect any statutory overrides to accounting practice in order to produce a reported financial position which directly impacts on council house rent payers. For 2015/16 the statutory overrides amounted to a credit to the HRA of £30.5m, resulting in a financial deficit for the HRA of £16.3m (compared to a surplus of £18.1m in 2014/15). This deficit largely relates to the planned use of £16.5m previously set aside in reserves to fund costs in 2015/16 relating to the Little London Beeston and Holbeck PFI scheme. The most significant statutory override impacting on the HRA in 2015/16 is a £93.5m credit transfer which reverses the impact of impairment on dwellings, as this is not required to be funded by tenants. There is also a transfer of £28.9m to the Major Repairs Reserve to fund council house repairs and repay debt.

The deficit of £16.3m was transferred to HRA earmarked reserves as approved by the Executive Board on 22nd June 2016.

Overall the HRA reserves stand at £38.1m as at 31st March 2016 (£54.4m as at 31st March 2015). £7.3m of this sum represents the HRA general reserve; this is deemed to be a prudent level based on the council's risk based reserves strategy. The remaining £30.8m HRA reserve represents amounts identified as necessary to fund specific future costs, £20.6m of which is being held to fund the future costs of Housing PFI schemes. Full details of the purpose of the remaining balance of the HRA reserve are shown in the explanatory note H4.

ii Collection Fund

The Collection Fund for 2015/16 shows a total deficit for the year of £13.3m (a £44.0m deficit in 2014/15). This leaves the Collection Fund with negative reserves of £70.9m as at 31st March 2016 (as at the 31st March 2015 the fund had negative reserves of £57.6m). The deficit at 31st March 2016 is made up of a £2.6m surplus on council tax (a £1.6m surplus at 31st March 2015) and a £73.5m deficit on business rates (a £59.2m deficit at 31st March 2015).

In respect of council tax this surplus arose because of differences between estimated and actual amounts of total council tax bills. The in-year surplus will feed into the estimate of the Collection Fund position that is made in January 2017, and the estimated balance at that point in time will be taken into account when calculating the council tax for the 2017/18. The surplus carried forward from 2014/15 was taken into account when setting the 2016/17 council tax.

The deficit on business rates has arisen due to further reductions in rateable values arising from appeals by ratepayers and other reductions initiated by the Valuation Office, coupled with slower than expected growth in new commercial properties within Leeds. The Collection Fund has also recognised a loss arising from a court judgement affecting councils' ability to recover empty rates where the occupier has gone into voluntary liquidation. The deficit includes the creation of a provision for the estimated costs of valuation appeals relating to business rates income received before the local retention scheme was introduced on 1st April 2013. The government has allowed local authorities to spread an element of this cost (the element which was known when the 2014/15 precept was set) over 5 years in their calculation of the precept transfer to the General Fund, so that the cost which is permitted to be deferred (£10.3m at 31st March 2016) remains in the Collection Fund. Taking this into account, the 2016/17 precept was set to recover £47m of the projected 2015/16 deficit. The element of the £73.5m 2015/16 deficit which will remain to be addressed by the end of 2016/17 is therefore £26.5m, of which the council will bear 49%.

The percentage of local taxation collected in year was 95.9% for council tax (95.7% in 2014/15) and 97.8% for business rates (97.3% in 2014/15).

3.5 Leeds City Council's group

Following the closure of its Housing ALMO companies during 2013/14, the council no longer has a material group and therefore does not produce group accounts.

The council has two remaining subsidiary charitable companies, Leeds Grand Theatre Ltd and the Craft Centre and Design Gallery Ltd. It also has four associates - Belle Isle Tenant Management Organisation Ltd, Green Leeds Ltd, The Leeds Groundwork Trust and Leeds Apprenticeship Training Agency Ltd, and one joint venture (NPS Leeds Ltd). There have been no financial issues affecting any of these organisations which materially impact on the council's financial position in 2015/16.

Since 2014/15 the Code has required local authority maintained schools to be treated as part of a local authority's group, but to be included within its single entity financial statements. This means that the council is required to recognise on its balance sheet any school properties which are deemed to be assets of the individual school governing bodies, as well as those which are its own assets. This requirement has led to the council recognising £411m of assets owned by school governing bodies on its balance sheet at 31st March 2016. However it should be noted that these assets are the assets of the school governing bodies, and are not available to the council for any other purpose than providing a school.

4 The council's strategic objectives and performance

4.1 The Best Council Plan for Leeds

The Council's strategic objectives are set out in the Best Council Plan, which can be accessed via the council's website at http://www.leeds.gov.uk/council/Pages/Council-plans.aspx The documents available include our Best Council Plan 2015-20 and the 2016-17 Update to it, which provides a succinct summary of our priorities and proposed performance measures for the coming year.

The 2016/17 Best Council Plan Update reiterates the council's Best City/Best Council overall objective of 'Tackling poverty and reducing inequalities'. It also sets out the council's twin ambitions :–

- for the city of Leeds to have a strong economy and to be a compassionate city, and
- for the council to contribute to this by being a more enterprising and efficient organisation.

The 2016/17 budget was developed in conjunction with the 2016/17 Best Council Plan Update, ensuring that the council's strategic objectives and its allocation of resources both inform and are informed by each other. This means that the annual budget and medium-term financial strategy represent the financial expression of the council's ambitions, policies and priorities.

4.2 Corporate governance

Like any organisation, the council's corporate governance arrangements are a key factor in ensuring that it can achieve its strategic objectives and secure economy, efficiency and effectiveness in delivering its services. Councils are required to carry out an annual review of the effectiveness of their corporate governance arrangements. The result of this review, the Annual Governance Statement, is published alongside this statement of accounts at http://www.leeds.gov.uk/council/Pages/our-financial-performance.aspx

4.3 Key performance indicators

Progress on the best Council Plan as a whole is reported on regularly via a set of key performance indicators known as our 'Best Council Plan Success Measures'. Some of these indicators are deliverable by the council's own services, but others are wider and require input from our partners within the city in order to achieve success. For 2016/17 performance reporting has been simplified to a list of 20 key indicators. However, for 2015/16 we reported on a more detailed list of performance indicators. A quarterly scorecard and an annual report are produced, details of which can be found on the council's website at http://www.leeds.gov.uk/council/Pages/Performance-information.aspx

The latest quarterly scorecard was published in May 2016, and showed a mixed picture overall, with progress against some indicators but declining performance against others. It contains too many indicators to include them all here, but some of the outcomes it records are :

- Number of children looked after – 1,232 (76.8 / 10,000) (1,265 for 2014/15)
- Primary school and secondary school attendance – 96.1% and 94.4% (96.4% and 94.6% for 2014/15)
- Percentage of 16-18 year olds not in education training or employment, or of status not known – 8.2% (9.7% for 2014/15)

- Increase the percentage of older people who are still at home 91 days after leaving hospital into reablement/rehabilitation services – 81% (81% for 2014/15)

- Increase the percentage of waste recycled to 44.2% - 42.3% to December 2015 (42.8% for 2014/15)

- Increase the number of people supported into jobs – 4,877 (4,630 for 2014/15)

- Housing growth – 2,516 new homes; 755 fewer empty properties (2,011 and 215 for 2014/15)

- Maximise business rates growth – 1.43% decrease from 2012/13 baseline (1.19% decrease at 2014/15)

- Overall satisfaction with cultural provision in Leeds – 73% satisfied or very satisfied (84% for 2014/15)

Our annual report on the council's performance against its Best Council Plan objectives for 2015/16 will be published at the end of July 2016.

5 Current accounting practice and new developments

There have been no significant changes in accounting policies required for local authorities for 2015/16. However, from 2016/17 local authorities will be required to recognise their highways and other infrastructure assets at current value rather than holding them at historic cost. It is expected that this will significantly increase the value of local authority assets.

The 2016/17 accounting Code will also require changes to the format of some of the statements included within the accounts, which aim to make them more understandable to the non-expert reader.

6 Looking forward – future financial challenges

The environment in which local government operates continues to be one which presents significant financial challenges to all local authorities. The 2016/17 budget will again require the Council to deliver significant savings, and it is also clear that an even greater level of savings will be required in 2017/18 and beyond as part of the Government's continuing deficit reduction plans. In addition, the level of appeals against business rates valuations represents a significant ongoing risk to the Council's funding. The government's plan to introduce 100% local retention of business rates does present some opportunities, but will also increase the level of risk.

Between the 2010/11 and 2015/16 budgets, Leeds' core funding from Government has reduced by around £180m. Our net budget for 2016/17 has reduced by a further £31m, and ongoing annual reductions are expected over the period to 2019/20. In addition to the reductions in its funding, the council faces continuing growth in demands for many of its services, particularly for adults' and childrens' social care, together with increases in costs and reductions in income due to the general economic climate. Whilst we have responded successfully to these financial challenges to date, it is important that the Council has a robust financial strategy in place to address the continuing financial pressures.

Our budget strategy sees many areas of the Council continuing to reduce budgets, in some cases through significant changes to the way the Council operates. The strategic framework outlining how we will allocate resources and respond to financial pressures is detailed in the Best Council Plan 2015-20.

Whilst continuing its programme of efficiencies, the council needs to work differently, to keep evolving and innovating in terms of *what* it does and *how* it does it, exploring different service models and greater integration with other organisations and encouraging staff to grow their commercial and business acumen. We will continue to work with partners across the city and the region so that collectively we can achieve more with less. A major part of this is the government's devolution agenda. We have already seen the formation of the West Yorkshire Combined Authority, and discussions continue on the future shape and role of the Leeds City Region.

The council also needs to move away from being simply a provider of services towards a more enabling role, working with people and communities so that they can become less reliant on the state and more resilient. If more people are able to do more themselves, the council and its partners can better prioritise service provision and resources towards those areas and communities which are most in need. To be successful in this we will need to evolve the relationship between public services and citizens, so that there is a balance between rights and responsibilities; a balance between improving outcomes and reducing public sector costs and managing demand.

Statement of Responsibilities

1 The City Council's responsibilities

The City Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Leeds City Council, that officer is the Deputy Chief Executive.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

2 The Deputy Chief Executive's responsibilities

The Deputy Chief Executive is responsible for the preparation of the City Council's Statement of Accounts. In preparing the statement, the Deputy Chief Executive has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice on Local Authority Accounting;
- applied the accounting concept of a 'going concern' by assuming that the authority's services will continue to operate for the foreseeable future.

The Deputy Chief Executive has also:

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

3 Certification of the accounts

I certify that the Statement of Accounts gives a true and fair view of the position of Leeds City Council at 31st March 2016 and its income and expenditure for the year ended 31st March 2016.

Alan T Gay CPFA
Deputy Chief Executive
16th September 2016

4 Approval of the accounts

I certify that the Statement of Accounts has been approved by a resolution of the Corporate Governance and Audit Committee of Leeds City Council in accordance with the Accounts and Audit Regulations 2015.

Councillor Pauleen Grahame
Chair, Corporate Governance and Audit Committee
16th September 2016

Statement of Accounting Concepts and Policies

The accounts follow the appropriate accounting standards as required by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code). The Code constitutes a "proper accounting practice" under the terms of section 21(2) of the Local Government Act 2003. The Code is based on approved accounting standards, except where these conflict with specific statutory accounting requirements, so that the authority's accounts present a 'true and fair' view of the financial position and transactions of the authority.

The accounting concepts and policies which have a material impact on the accounts are as follows:

1 Fundamental accounting concepts

1.1 Qualitative characteristics of financial information

a Relevance

The accounts have been prepared with the objective of providing information about the authority's financial performance and position that is useful for assessing the stewardship of public funds and for making economic decisions.

b Reliability

The financial information is a faithful representation, as it

- has been prepared so as to reflect the reality or substance of the transaction and activities underlying them, rather than their formal legal character;
- includes all information necessary for a user to understand the authority's financial performance and position
- is free from deliberate or systematic bias;
- is free from material error; and
- has been prudently prepared.

c Comparability

In addition to complying with the Code, the authority's accounts also comply with the Service Reporting Code of Practice. This code establishes proper practice with regard to consistent financial reporting below the statement of accounts level and therefore aids comparability with other local authorities.

d Understandability

These accounts are based on accounting concepts, treatments and terminology which require reasonable knowledge of accounting and local government. However, every effort has been made to use plain language and where technical terms are unavoidable they have been explained as they occur.

1.2 Materiality

As allowed under the Code, the concept of materiality has been utilised in preparing these accounts. Information is material if omitting or misstating it could influence the decisions that users may make on the basis of the accounts. The Code permits authorities not to comply with specific disclosure requirements or accounting principles where the information is not material to the ‘true and fair’ view of the financial position and financial performance of the authority, and to the understanding of users.

1.3 Pervasive accounting concepts

a Accruals

The financial statements, other than the cash flow information, are prepared on an accruals basis. This means that expenditure and income are recognised in the accounts in the period in which they are incurred or earned, not as money is paid or received.

b Going concern

The accounts have been prepared on the assumption that the authority will continue in operational existence for the foreseeable future.

c Fair value

The concept of fair value is used throughout the Code. Where the Code requires assets and liabilities to be measured at fair value, from 2015/16 this has been done in accordance with the requirements of IFRS 13 Fair Value Measurement. This requirement is prospective from 1st April 2015. Any fair values included in the comparator figures for 2015/16 have not been restated to comply with IFRS 13.

d Primacy of legislative requirements

In accordance with the Code, where an accounting treatment is prescribed by law then it has been applied, even if it contradicts accounting standards or generally accepted accounting concepts. The following legislative accounting requirements have been applied when compiling these accounts:

i Capital receipts from the disposal of assets are treated in accordance with the provisions of the Local Government Act 2003.

ii The Local Government Act 2003 requires the authority to set aside a minimum revenue provision (MRP) for repayment of debt. This should be at a prudent level, having regard to statutory guidance. The MRP is charged to the general fund as a transfer in the Statement of Movement in Reserves. This adjustment is made by way of an appropriation to or from the capital adjustment account.

iii The Collection Fund account reflects the statutory requirement of section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992).

iv The Housing Revenue Account is compiled following proper practice as defined in section 74(1) of the Local Government and Housing Act 1989 and section 21 of the 2003 Act.

None of the above legislative requirements impacts on the authority's accounts to the extent that they no longer present a true and fair view of the financial position of the authority.

2 Accounting policies and estimation techniques

The accounting policies are the principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are reflected in the financial statements of the authority. Consistent accounting policies have been applied both within the year and between years. Where accounting policies are changed, the reason and effect have been separately disclosed.

Where estimation techniques are required to enable the accounting practices adopted to be applied, then the techniques which have been used are, in the authority's view, appropriate and consistently applied. Where the effect of a change to an estimation technique is material, a description of the change and, if practicable, the effect on the results for the current period is separately disclosed.

2.1 Accruals of income and expenditure

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

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

c Employee costs are charged to the accounts of the period within which the employees worked. Accruals have been made for wages earned but unpaid at the year-end.

d Interest payable on external borrowings and interest income is accrued and accounted for in the period to which it relates on a basis which reflects the overall economic effect of the borrowings. In accordance with the accounting requirements for financial instruments, accrued interest is added to the balance of the instrument to which it relates rather than being shown within short term debtors and creditors.

e Supplies and services are accrued and accounted for in the period during which they are consumed or received. Accruals have been made for all material sums unpaid at the year end for goods or services received or work completed. 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.

2.2 Provisions and contingencies

a Provisions have only been recognised in the accounts when there is a legal or constructive obligation to transfer economic benefits as a result of a past event, and where such an amount can be reliably estimated. Provisions are charged to the revenue account and, depending on their materiality, are either disclosed as a separate item on the Balance Sheet or added to the carrying balance of an appropriate current liability. When expenditure is incurred to which the provision relates, it is charged directly to the provision.

b Where a material contingent loss cannot be accurately estimated or an event is not considered sufficiently certain, it has not been included within the financial statements but is disclosed in explanatory note 4

c Where a material contingent gain is identified it is not accrued for within the accounting statements but disclosed in explanatory note 13.4.

d The authority accounts for the estimated cost of settling self-insured risk by way of an insurance provision. Where estimation techniques are required to enable the accounting practices adopted to be applied, then the techniques which have been used are, in the authority's view, appropriate and consistently applied. Where the effect of a change to an estimation technique is material, a description of the change and, if practicable, the effect on the results for the current period is separately disclosed.

e The carrying amount of debtors has been adjusted for doubtful debts, which should be provided for, and known uncollectable debts have been written off in full.

2.3 Other comprehensive income and expenditure reclassifiable to the surplus or deficit on provision of services

The Code requires the items within Other comprehensive income and expenditure to be separately grouped into those items which are reclassifiable to the Surplus or deficit on provision of services and those which are not, where this split is material.

The only item which the council currently has within Other comprehensive income and expenditure which is reclassifiable to the Surplus or deficit on provision of services is Gains or losses on the revaluation of available for sale assets. This is not sufficiently material to require a separate grouping.

3 Revenue expenditure funded from capital under statute

Local authorities are permitted by statute to treat as capital some items of expenditure that do not generate an asset or lasting economic benefit, and thus would not be capital expenditure under Generally Accepted Accounting Practice (GAAP). Such expenditure is referred to as revenue expenditure funded from capital under statute (REFCUS), and is charged to the relevant service heading within the Comprehensive Income and Expenditure Account. Any external capital funding used to finance the expenditure is credited to the Comprehensive Income and Expenditure account. However, in order to ensure that the net expenditure is funded from capital funding sources rather than from Council Tax payers, the transactions are reversed out of the General Fund revenue account via the Movement in Reserves Statement.

4 Grants and contributions

Government grants and other contributions are recognised as due to the authority when the conditions of their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

Grants and contributions are credited to income when there is reasonable assurance that any conditions attached to the grant or contribution will be met. Any grants received where conditions have not been met are carried in the balance sheet as creditors. When all conditions are satisfied, the grant is credited to the relevant service line, except for non-ringfenced grants and capital grants, which are credited to General government grants in the Comprehensive Income and Expenditure Statement.

Capital grants are reversed out of the general fund balance in the Movement in Reserves Statement to the Capital Grants Unapplied Account. When the grant has been applied to fund capital expenditure it is posted to the Capital Adjustment Account.

5 Employee Benefits

Accruals for 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 pay for current employees and are recognised as an expense for services in the year which employees render service to the authority.

Paragraph 10 below covers accounting for pensions.

Potential liabilities arising in relation to unequal pay claims have been treated in accordance with the authority's policies on provisions and contingencies (see 2.2 above).

6 Financial instruments – financial assets

Financial assets in the classification 'loans and receivables' are valued on recognition at fair value (usually the cost of acquisition), and are subsequently valued at amortised cost less a provision, if appropriate, for impairment. Loans and receivables are included in the Balance Sheet within either long term debtors, long term investments, current debtors or current investments. Interest receivable on financial assets is credited to the income and expenditure account at the effective interest rate arising from the amortised cost calculation. Any accrual of interest at the balance sheet date is included within the value of the relevant financial assets rather than being shown as a separate debtor.

Where the authority makes a loan at less than the prevailing market interest rate (a 'soft loan'), the fair value on recognition is taken to be the estimated present value of all future cash receipts discounted using the prevailing market rate. The amount by which the value leant exceeds the fair value of the loan on recognition is charged immediately to the Comprehensive Income and Expenditure Account. In accordance with legislation, this amount is then reversed within the Movement in Reserves Statement and does not impact on council tax. In subsequent years, transactions are made in the Movement in Reserves Statement to ensure that the amounts credited to the general fund balance are equal to the interest received rather than the effective interest rate of the loan.

Available-for-sale financial assets are valued in the Balance Sheet at fair value, and are included in the long term investments category. Where available-for-sale assets are quoted in an active market, the quoted market price is taken as fair value. If no market price is available, then fair value is estimated using the best available information. Impairments to the value of available-for-sale assets are recognised in the Comprehensive Income and Expenditure Account. Unrealised gains and losses arising as a result of changes to the fair value of available-for-sale assets are also recognised in the Comprehensive Income and Expenditure Account.

7 Leases

7.1 Finance leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Rentals payable under finance leases are apportioned between the finance charge and the reduction of the outstanding obligation, with the finance charge being allocated and charged to revenue over the term of the lease. The amount of outstanding principal has been recognised on the balance sheet as a deferred liability with a corresponding entry into fixed assets.

The amount due from a lessee under a finance lease is recorded as a long-term debtor at the amount of the net investment. The lease payments under a finance lease are allocated to accounting periods to give a constant periodic rate of return to the net investment in the lease in each period.

7.2 Operating leases

Rentals payable under operating leases are charged to revenue on a straight-line basis over the term of the lease. In addition operating lease rentals payable are accounted for net of benefits received or receivable.

Rental income from operating leases is recognised on a straight-line basis over the period of the lease. Assets held for use in operating leases are recorded as property plant and equipment or investment property on the balance sheet.

8 Overheads

The costs of support services are charged to service revenue accounts, trading undertakings, capital accounts and other support services. The costs of service management are apportioned to the accounts representing the activities managed. All the bases of apportionment are adopted consistently for all heads to which apportionment should be made. The costs of the corporate and democratic core and of non-distributable costs are not charged or apportioned to service revenue accounts but are classified separately in the Comprehensive Income and Expenditure Account.

9 Reserves

Any amounts set aside for purposes falling outside the definition of provisions have been accounted for as reserves, and transfers to and from reserves are shown in the Movement in Reserves Statement and not within service expenditure. Expenditure is charged to the Comprehensive Income and Expenditure Account and not directly to any reserve (other than the Major Repairs Reserve - see note a below).

The exceptions allowed by the code and by statute are:

a The Major Repairs Reserve, which is a statutory reserve for Housing Revenue Accounts in England and Wales. Statute allows authorities to charge defined capital expenditure on assets directly to this reserve, along with sums voluntarily set aside to repay debt.

b The Usable Capital Receipts Reserve is required under the Local Government Act 2003 and is credited with income from the disposal of fixed assets and other receipts defined by statute as capital receipts. In the year the usable receipts are used to finance capital expenditure or to fund credit arrangements they are applied to the Capital Adjustment Account. Any reserved element of receipts from Right to Buy sales of council dwellings is paid over to the government’s national pool for redistribution back to local authorities.

10 Pensions

The authority has accounted for its pension costs arising from the Local Government Pension Scheme, and for all unfunded discretionary benefits which it has granted, as defined benefit schemes. Pension costs relating to the national teachers' pension scheme have been treated as defined contribution schemes, in accordance with the code. The NHS pensions scheme is also accounted for as a defined contribution scheme.

10.1 Defined benefit schemes

For those schemes treated as defined benefit schemes, pension fund assets are accounted for at fair value (that is, market value for investments and properties). Pension liabilities are measured on an actuarial basis using the projected unit method. This requires the use of various assumptions about future events. Details of the assumptions used can be found in explanatory note 8.

Within the Comprehensive Income and Expenditure Account, service revenue accounts and trading services have been charged with their current service cost, which represents the extent to which pensions liabilities have increased as a result of employee service during the year. Past service costs, settlements and curtailments have been charged to non-distributable costs. The net interest cost on the net pension liability has been included in net operating expenditure.

As required by legislation, an appropriation to the Pensions Reserve has been made, which reverses out the IAS 19 based pension costs in the Comprehensive Income and Expenditure Account and replaces them with the actual pensions related payments made in year. This ensures that the amount to be funded from Council Tax for the year is equal to the employer's pension contributions payable and payments made directly to pensioners.

The pension costs shown within the Housing Revenue Account (HRA) reflect the current service costs relating to HRA staff. The HRA's apportioned share of the net interest cost has been included in net operating expenditure. The impact of these adjustments is reversed by an appropriation to the Pensions Reserve, so that the pension cost fundable from rents equates to the actual pensions related payments for the year.

10.2 Defined contribution schemes

For defined contribution schemes, the pension cost to be accounted for is equal to the pension contributions payable for the year. These costs are recognised within Net Cost of Services. No assets or liabilities are required to be recognised other than accruals relating to these contributions.

11 Cash and cash equivalents

The authority's Cash Flow Statement reflects the movements in cash and cash equivalents during the year. Cash is represented by cash in hand and the net balances on the authority's operational bank accounts, including any overdrawn balances. The authority has defined cash equivalents as those investments that are held for treasury management purposes and which can be realised within 1 month or which have a lifetime of 3 months or less.

12 Inventories and long term contracts

12.1 Inventories

Inventories are valued at cost less an allowance for loss in value. This is assessed annually to ensure there is no material impact on the carrying value of the assets. Work in progress is included with inventories in the Balance Sheet at cost less any foreseeable losses.

12.2 Long term contracts

Long-term contracts are assessed on a contract by contract basis and are reflected in revenue by recording turnover and related costs as contract activity progresses. Turnover has been ascertained by reference to valuation of the work carried out to date or, if appropriate, separately ascertainable sales values and costs (eg because delivery or customer acceptance has taken place).

When the outcome of a long-term contract can be assessed with reasonable certainty before its conclusion, then the prudently calculated attributable profit is recognised in the revenue account as the difference between the reported turnover and related costs for the contract.

13 Value Added Tax (VAT)

Value Added Tax is included within the accounts only to the extent that it is irrecoverable and therefore charged to service expenditure or capital expenditure as appropriate.

14 Associated and subsidiary companies; group accounts

The local authority group has been determined by reference to the definitions of subsidiaries, associates and joint ventures in the Code (see the preamble to this statement). These definitions are consistent with International Financial Reporting Standards. From 2014/15 onwards, the entities within the council's group have not been sufficiently material to require it to produce separate group accounts.

15 Intangible assets

15.1 Measurement

Intangible assets where the authority has control of the asset through either custody or legal protection are capitalised at cost. Such intangible assets held by the authority are not revalued.

The authority undertakes no research and development, nor has it acquired or is it holding any goodwill (as defined in IAS 38).

15.2 Basis for charging for intangible assets

The capital cost of an intangible asset is charged to revenue over its economic life on a straight-line basis. The asset life of each intangible asset is assessed on an annual basis and does not extend beyond any granted legal rights unless the legal rights are renewable and renewal is assured. The asset lives used for the intangible assets are 5 or 10 years. None of the authority's intangible assets are deemed to have any residual value at the end of their useful life.

Assets have been reviewed for any impairment loss in respect of consumption of economic benefit. Where an impairment loss has occurred, it has been charged to the service revenue account. An amount equal to the amortised charges for the use of intangible assets and relevant impairment losses included in revenue accounts is reversed within the movement in reserves statement.

15.3 Disposal

Gains or losses on disposal of intangible assets are recorded in the Comprehensive Income and Expenditure Account, and accounted for on an accruals basis.

16 Tangible long-term assets

16.1 Recognition

All expenditure on the acquisition, construction or enhancement of a tangible asset, as defined by the Accounting Code of Practice, has been capitalised and classified as a long-term asset, where the asset brings benefit to the authority for a period of more than one year.

16.2 Measurement

Operational land and properties are valued on the basis of current value in existing use, unless there is no market based evidence of their current value due to their specialist nature, in which case their current value is estimated on a depreciated replacement cost basis. In particular, and in accordance with Department for Communities and Local Government guidance, council house valuations have been reduced by a regional adjustment factor in recognition of their status as social housing. Consequently council dwellings are included in the balance sheet at 31% of current value.

The value of infrastructure assets, such as highways, in existence at 1st April 1994 is included in the Balance Sheet at the equivalent of any net loan debt outstanding. Since the 1st April 1994 any new infrastructure assets and enhancements are included at construction cost, net of depreciation where appropriate.

The value of community assets in existence at 1st April 1994 is included in the Balance Sheet at nominal value. Since 1st April 1994 all new community assets and enhancements to existing assets have been included at historic cost, net of depreciation where appropriate.

Capital spend on tangible long term assets is included in the carrying value of an asset until such time as it is revalued. Where material capital spend has occurred on an asset, a revaluation is carried out in the year in which work is completed. Where construction or major enhancement work to an asset spans more than one year, any financing costs incurred during the construction period are included in the capital cost of the acquisition or enhancement.

At revaluation, any gains are credited to the revaluation reserve. Any revaluation losses are firstly written down against any previous revaluation gains or where there are no previous revaluation gains, such losses are charged to the Comprehensive Income and Expenditure Account in accordance with the Accounting Code of Practice. Where revaluation losses which have been charged to the income and expenditure account are reversed by subsequent events, the reversing revaluation gains are credited to the Comprehensive Income and Expenditure Account.

16.3 Estimation

In accordance with the Code, all valuations are subject to review as part of a five year rolling revaluation programme. In order to reflect a more accurate value of the authority's assets any asset which is not revalued in the year or not included at either cost or nominal value is uplifted based on appropriate indices. The indices used are as follows –

- the Royal Institute of Chartered Surveyors' forecast rebuild indices for assets valued at depreciated replacement cost; and
- a property rents index produced by external property management surveyors, for assets valued at open market value

New developments from the authority's capital programme are included in the register at construction cost from completion until they are subject to valuation.

The information on council houses is derived from the number of properties included in the Housing Rents system. The summary totals have been adjusted to reflect all known disposals during the year. Full valuations of the authority's housing stock are carried out on a five-yearly cycle, with an annual desktop exercise during the five years.

16.4 Basis of charge for use of fixed assets

Capital charges are made to the users of fixed assets and are calculated on the basis of the opening balance sheet value of the asset and comprise –

i A depreciation charge for all tangible fixed assets other than non-depreciable land, investment properties, assets held for sale and heritage assets.

Depreciation is calculated by writing off the cost or revalued amount, less estimated residual value, over the remaining useful life of the asset. All assets have been depreciated on a straight line basis with no residual value. Individual remaining asset lives are assessed having regard to the structural condition of the building, to age and state of repair, condition of the mechanical and electrical services, compliance with current legislation and suitability for its existing use. Once completed, depreciation is calculated based on the individual remaining asset life. However, where remaining lives are not available for individual assets, a range for remaining asset lives has been determined for a variety of asset categories. The midpoint has then been used as the estimated remaining asset life. The categories and ranges of remaining asset lives used in the estimation are as follows:

- vehicles, plant and equipment between 3 and 7 years
- schools between 20 and 60 years
- libraries, administration offices and council houses between 40 and 60 years
- car parks between 40 and 60 years
- farms, golf clubs, cemeteries and markets 60 years
- all other significant properties between 20 and 40 years
- infrastructure assets 30 years.

ii Assets have been reviewed for any impairment loss in respect of consumption of economic benefit. Where an impairment loss has occurred, it has been firstly written down against any previous revaluation gains. Where there are no previous revaluation gains, such losses are charged to the service revenue account.

iii The basis for charging the external cost of capital financing to the Housing Revenue Account (HRA) is the Item 8 determination contained within Part 6 of the Local Government and Housing Act 1989. This requires long term loans to be allocated between the HRA and the General Fund, and for the HRA to receive an appropriate share of overall short term borrowing costs.

Authorities are also required, by the Accounts and Audit Regulations 2011, to establish and maintain the Major Repairs Reserve (MRR). The main credit to the MRR is an amount equivalent to the total depreciation charges for all HRA assets. The Item 8 determination allows that where depreciation charges for HRA dwellings are greater than or less than the specified amount deemed necessary to carry out major repairs to the properties for the year, an amount equal to the difference may be transferred between the HRA and the Major Repairs Reserve.

iv Repairs and maintenance expenditure is charged to the appropriate service revenue account.

16.5 Componentisation of fixed assets

The land and building elements of all properties are valued separately and treated as two separate assets for accounting purposes.

In addition to this, and subject to an appropriate materiality threshold, the Code requires that any individual components within buildings which have a cost that is significant in relation to the total cost of the host building should be separately accounted for, unless they have a useful life similar to that of the host building.

In considering assets for potential componentisation, the authority has included all general fund buildings with a carrying value of above £1m, and any buildings below this value which are considered to have unique characteristics. Within each building, the authority has set its threshold for the recognition of components as 20% of the cost of the building. Buildings considered to be unique in nature have been separately reviewed, but sample reviews have been undertaken for groups of similar assets. The overall population of HRA assets has been reviewed on a sample basis, using the same threshold for the recognition of individual components. All reviews were carried out by professional quantity surveyors.

Components have been separately recognised only where their cost is 20% or more of the cost of the host asset and their useful life is sufficiently different from the useful life of the host building to mean that the potential impact on depreciation would be material.

17 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 is held for sale.

Investment properties are measured initially at cost and subsequently at fair value. As non-financial assets, investment properties are measured at highest and best use. Properties are not depreciated but are reviewed annually for any changes in value. All gains and losses on revaluation are posted to gain or loss on investment properties line in the Comprehensive Income and Expenditure Account. Rentals received in relation to investment properties are also credited to the gain or loss on investment properties line.

18 Assets held for sale

When it becomes highly probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through continuing use, it is reclassified as an asset held for sale. Assets held for sale are carried at the lower of carrying value and fair value less costs to sell.

Subsequent decreases in fair value less costs to sell are charged directly to the Comprehensive Income and Expenditure Account. Gains in fair value are only recognised to the extent that they reverse a loss previously recognised in the surplus or deficit on provision of services. No depreciation is charged on assets held for sale.

When an asset no longer meets the criteria to be classified as held for sale, it is reclassified back to long-term assets and valued at the lower of their carrying value before they were classified as held for sale (adjusted for any depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale) and their recoverable amount.

19 Heritage assets

Heritage assets are those assets with historical, artistic, cultural, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture, and are intended to be preserved for future generations.

Where it is practicable to obtain a valuation, heritage assets are held at their latest valuation. Valuation methods used by the authority include professional valuations and insurance valuations. Where a valuation is not practicable at a reasonable cost, heritage assets are held at historic cost, if this is known. If neither valuation nor historic cost is available then heritage assets are not recognised on the balance sheet. The authority discloses information about the nature and scale of its collections of heritage assets, whether or not these have been identified on the balance sheet.

Heritage assets are assumed to be held in perpetuity, and are therefore not depreciated. However, heritage assets are reviewed for impairment in the same way as any other tangible or intangible assets.

Operational heritage assets, i.e. those assets which have heritage characteristics but which are also used for operational purposes, are classified and accounted for as operational assets in accordance with accounting policy 15 or 16 as appropriate.

20 Capital receipts

Capital receipts from the disposal of assets are treated in accordance with the provisions of the Local Government Act 2003. Capital receipts must be used to fund capital expenditure, to repay debt, or to fund credit arrangements, subject to the de minimis level set out in the relevant regulations (currently £10k).

Capital receipts realised from the sale of non-housing land and dwellings are fully usable. Under current legislation, housing receipts are split between those that can be used by the authority for any purpose, those which must be paid over to the government, and those which the council can keep subject to certain conditions on their use.

21 Financial instruments – financial liabilities

All of the authority’s financial liabilities are valued at amortised cost, calculated using the effective interest rate method. Transaction costs are only included in the calculation of the amortised cost of a financial liability where they are considered to be material. Interest is charged to the income and expenditure account on the basis of the effective interest rate. Any accrual of interest at the balance sheet date is included within the value of the relevant financial liabilities rather than being shown as a separate creditor.

Where the repurchase or early settlement of borrowing leads to the derecognition of the debt instrument, any premium or discount arising is recognised immediately in the income and expenditure account. However, where the original debt instrument is modified or replaced with a new debt instrument from the same lender, and the terms of the new/modified debt instrument are not substantially different, the transaction is accounted for as a modification of existing debt and any premium or discount is included in the amortised cost calculation of the new debt instrument.

22 Exceptional items and prior year adjustments

Any material exceptional items are included within the cost of the relevant individual service or, if a degree of prominence is necessary in order to give a fair presentation of the accounts, separately identified on the face of the comprehensive income and expenditure account. Details of any such exceptional items are given in the explanatory notes.

Material prior period adjustments arising from changes in accounting policies or from the correction of material errors have been accounted for by restating the comparative figures in the financial statements and notes, along with the cumulative effect on reserves. Any effect of material prior period adjustments is disclosed separately as a note to the accounts.

23 Events after the reporting date

Any material events after the balance sheet date which provide additional evidence relating to conditions existing at the balance sheet date or indicate that application of the going concern concept is not appropriate have been included in the accounts.

Any material events after the balance sheet date which concern conditions which did not exist at the balance sheet date have been disclosed as a separate note to the accounts.

Events after the balance sheet date are included in the accounts up to the date when the Statement of Accounts is authorised for issue. The Code defines three 'authorised for issue' dates within the process of producing a local authority's accounts – the date on which the draft accounts are certified by the responsible financial officer (on or before 30th June), the date on which the final accounts are authorised for publication (on or before 30th September), and the date on which an audit certificate is issued (if later).

24 Private Finance Initiatives (PFI)

In accordance with the Code, the authority accounts for its Private Finance Initiative contracts in accordance with IFRIC 12 Service Concession Agreements (as adapted for the public sector), which sets out control tests that determine whether or not assets provided under PFI schemes are recognised on an entity's balance sheet.

Where the authority concludes that assets provided under PFI schemes should be recognised on its balance sheet, a corresponding deferred liability to pay for those assets is recognised. Throughout the life of the scheme, an element of the unitary charge paid to the contractor is applied to write down the value of the deferred prepayment, and a further element of the unitary charge is treated as being interest payable on the outstanding deferred liability balance. For General Fund schemes, a Minimum Revenue Provision (MRP) charge is made to the General Fund Reserve for an amount equal to the amount by which the deferred liability has been written down, less the element of this debt repayment which has been funded by capital receipts. For HRA schemes, a statutory charge is made to the HRA revenue account equal to the repayment of the deferred liability. The net amount funded from either capital receipts or revenue charges in year is therefore equal to the unitary charge payment for the year.

Assets provided under PFI schemes which are recognised on the authority's balance sheet are subsequently accounted for in the same way as all other tangible long-term assets.

25 Local Taxation

i The authority 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 authority's own income are included in its main financial statements.

ii The authority is a Non Domestic Rates billing authority, collecting Non Domestic Rates on behalf of itself, the government and the West Yorkshire Fire and Rescue Service. The collection of Non Domestic Rates on behalf of these other bodies is treated as being on an agency basis, and thus only the elements of Non Domestic collection that relate to the authority's own income are included in its main financial statements.

iii The Collection Fund account covers all local taxation collected by the authority on behalf of itself, other local authorities and the government.

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement summarises the authority's financial performance for the year on the basis of International Financial Reporting standards. However, the amounts chargeable to a local authority's council tax and its General Fund reserves for the year are controlled by legislation, and include a number of statutory adjustments and transfers to specific reserves. The effect of these statutory transactions is shown in explanatory note 5.2.

2014/15		*2015/16*			notes
net expenditure	£000s	*gross expenditure*	*gross income*	*net expenditure*	
210,097	Adult Social Care	278,734	61,072	217,662	
15,976	Central Services	38,770	21,390	17,380	
205,829	Children's and Education Services	768,444	554,376	214,068	
74,263	Cultural and Related Services	90,226	27,429	62,797	
65,986	Environmental and Regulatory Services	73,710	17,240	56,470	
29,606	Planning Services and Economic Development	40,436	23,736	16,700	
73,820	Highways and Transport Services	96,961	19,015	77,946	
(89,999)	Housing Revenue Account	266,660	251,783	14,877	5.6
20,096	Other Housing Services	322,330	302,625	19,705	
(945)	Public Health	46,361	47,829	(1,468)	
12,125	Corporate and Democratic Core	12,197	-	12,197	
3,684	Non-distributable costs	3,936	-	3,936	
620,538	Net cost of services	2,038,765	1,326,495	712,270	
33,738	(Gain) or loss on disposal of fixed assets			36,622	5.7
-	(Gain) or loss on disposal of long term debtors and investments			1,240	
1,490	Parish Council precepts			1,536	
(5,765)	(Surpluses) / deficits on trading undertakings			(5,036)	
5,144	Amounts payable into the Housing Capital Receipts Pool			5,888	
655,145	Net Operating Expenditure			752,520	
98,467	Interest payable and similar charges			105,711	
37,723	Net accrued interest on the net pension liability			34,114	3
2,761	(Gain) or loss on investment properties			(2,068)	
(1,136)	Interest and investment income			(765)	
792,960	Net Expenditure after financing and investment			889,512	
(244,306)	Council Tax Income			(254,280)	
(130,865)	Non-Domestic Rates Income and Expenditure			(140,451)	
(386,641)	Non-Ringfenced Government Grants			(310,332)	6
31,148	(Surplus) / deficit on provision of services			184,449	
(170,105)	(Surplus) / deficit on revaluation of fixed assets			(140,235)	
(29)	(Surplus) / deficit on revaluation of available-for-sale assets			(96)	
140,712	Remeasurements of the net pension liability			(108,964)	
1,726	Total Comprehensive Income and Expenditure			(64,846)	

Movement in Reserves Statement

This statement shows the movements in the year on the different reserves held by the authority, analysed between usable reserves and unusable reserves. The statement shows how the movement in the authority's reserves is broken down between gains and losses recognised on an accounting basis and the statutory adjustments required to control the amounts chargeable to council tax for the year.

2015/16

	Usable reserves					*Unusable reserves*			
	General Fund Reserve	*HRA Reserve*	*Earmarked GF revenue reserves*	*Usable capital reserves*	*Total usable reserves*	*Statutory revenue reserves*	*Capital accounting balances*	*Total reserves*	*notes*
Balance brought forward 1st April 2015	22,341	54,379	85,397	228,136	390,253	(1,219,451)	1,617,775	788,577	
Surplus / (deficit) on provision of services	(137,642)	(46,807)			(184,449)			(184,449)	
Other comprehensive income and expenditure					-	108,964	140,331	249,295	11.1
Total comprehensive income and expenditure	(137,642)	(46,807)	-	-	(184,449)	108,964	140,331	64,846	
Statutory adjustments between accounting basis and funding basis	125,822	30,547		136,641	293,010	(63,022)	(229,988)	-	11.2
Statutory capital adjustments	-	-	-	45,650	45,650	-	(45,650)	-	11.3
Increase / (decrease) before transfers	(11,820)	(16,260)	-	182,291	154,211	45,942	(135,307)	64,846	
Transfers to/(from) earmarked revenue reserves	11,039	-	(11,039)	-	-	-	-	-	
Transfers to fund capital expenditure	-	-	-	(224,068)	(224,068)	-	224,068	-	11.4
Increase / (decrease) during year	(781)	(16,260)	(11,039)	(41,777)	(69,857)	45,942	88,761	64,846	
Balance carried forward 31st March 2016	21,560	38,119	74,358	186,359	320,396	(1,173,509)	1,706,536	853,423	

2014/15

	Usable reserves					*Unusable reserves*			
	General Fund Reserve	*HRA Reserve*	*Earmarked GF revenue reserves*	*Usable capital reserves*	*Total usable reserves*	*Statutory revenue reserves*	*Capital accounting balances*	*Total reserves*	*notes*
Balance brought forward 1st April 2014	26,022	36,229	67,555	196,189	325,995	(1,005,398)	1,469,706	790,303	
Surplus / (deficit) on provision of services	(87,936)	56,788			(31,148)			(31,148)	
Other comprehensive income and expenditure					-	(140,712)	170,134	29,422	11.1
Total comprehensive income and expenditure	(87,936)	56,788	-	-	(31,148)	(140,712)	170,134	(1,726)	
Statutory adjustments between accounting basis and funding basis	102,097	(38,638)	-	168,344	231,803	(73,341)	(158,462)	-	11.2
Statutory capital adjustments	-	-	-	39,815	39,815	-	(39,815)	-	11.3
Increase / (decrease) before transfers	14,161	18,150	-	208,159	240,470	(214,053)	(28,143)	(1,726)	
Transfers to/(from) earmarked revenue reserves	(17,842)	-	17,842	-	-	-	-	-	
Transfers to fund capital expenditure	-	-	-	(176,212)	(176,212)	-	176,212	-	11.4
Increase / (decrease) during year	(3,681)	18,150	17,842	31,947	64,258	(214,053)	148,069	(1,726)	
Balance carried forward 31st March 2015	22,341	54,379	85,397	228,136	390,253	(1,219,451)	1,617,775	788,577	

Balance Sheet

The balance sheet is the key statement of an authority's financial position at the year-end. It shows its balances and reserves, and the values of its long term and current assets and liabilities.

31 March 2015	£000s	*31 March 2016*		*notes*
	Long-term assets			
3,854,811	Property, plant and equipment	4,124,541		1, 13.1
69,137	Heritage assets	80,398		1, 13.2
18,803	Investment property	27,850		1
12	Intangible fixed assets	6		1
3,298	Long-term investments	13,710		
18,559	Long-term debtors	18,767		13.3
3,964,620			4,265,272	
	Current assets			
150,315	Debtors	165,792		14.1
30,099	Investments	-		2
3,802	Inventories	3,421		
16,520	Assets held for sale	25,287		
-	Carbon Reduction Commitment licences	623		
2,852	Cash and cash equivalents	5,164		
203,588			200,287	
	Current liabilities			
(212,945)	Creditors	(193,599)		15.1
(99,324)	Borrowing repayable on demand or within one year	(277,846)		2, 16
(34,690)	Provisions for current liabilities	(26,114)		4
(346,959)			(497,559)	
3,821,249	Total assets less current liabilities		3,968,000	
	Long-term liabilities			
(1,358,227)	Long-term borrowing	(1,366,990)		2, 16
(1,108,376)	Net pensions liability	(1,055,993)		3
(561,745)	Deferred liabilities	(687,128)		17.1
(3,663)	Provisions for long term liabilities	(4,286)		4
(661)	Capital grants receipts in advance	(180)		
(3,032,672)			(3,114,577)	
788,577	Total assets less liabilities		853,423	
	Financed by			
	Unusable capital accounting balances			
644,353	Revaluation Reserve	739,496		18.1
967,860	Capital Adjustment Account	960,494		18.2
5,451	Deferred Capital Receipts	6,378		18.3
111	Available for Sale Reserve	168		18.4
1,617,775			1,706,536	
	Usable capital funding reserves			
24,409	Usable Capital Receipts Reserve	26,566		18.5
153,362	Capital grants unapplied	128,029		18.6
50,365	Major Repairs Reserve	31,764		H6
228,136			186,359	
	Unusable statutory revenue reserves			
(1,108,376)	Pensions Reserve	(1,055,993)		3
(72,771)	Financial Instruments Adjustment Account	(73,441)		20.1
(10,664)	Accumulated Absences Account	(10,257)		20.2
(27,640)	Collection Fund Adjustment Account	(33,818)		20.3
(1,219,451)			(1,173,509)	
	Usable revenue reserves			
22,341	General Fund Reserve	21,560		
54,379	Housing Revenue Account Reserve	38,119		
85,397	Other earmarked reserves	74,358		12
162,117			134,037	
788,577	Total reserves and balances		853,423	

Cash Flow Statement

This statement summarises the inflows and outflows of cash and cash equivalents arising from transactions with third parties. For the purposes of this statement, cash and cash equivalents are defined as cash in hand, plus deposits repayable on demand, less overdrafts repayable on demand, plus short term investments held for the purposes of cash flow management.

2014/15	£000s	*2015/16*	
	Operating activities :		
	Cash outflows		
(809,037)	Cash paid to and on behalf of employees	(798,821)	
(817,059)	Other operating cash payments	(827,016)	
(162,189)	Housing Benefit paid out	(158,538)	
(5,025)	Payments to the Capital Receipts Pool	(5,707)	
(30,500)	Revenue expenditure funded by capital under statute	(33,592)	
(1,490)	Precepts paid	(1,536)	
(56,979)	Interest paid	(57,477)	
(41,437)	Finance lease and PFI scheme interest paid	(48,122)	
(1,923,716)			(1,930,809)
	Cash inflows		
1,124,296	Government revenue grants	1,073,719	
239,828	Income from council tax	248,993	
176,242	Income from Business Rates collected	170,838	
181,447	Cash received for goods and services	162,427	
227,738	Rents (after rebates)	233,428	
40,622	Other operating cash receipts	50,650	
18,008	Grants funding expenditure capitalised under statute	18,727	
1,136	Interest and dividends received	867	
2,009,317			1,959,649
85,601	Net cash flow from operating activities		28,840
	Capital and financial investment activities:		
	Cash outflows		
(232,400)	Purchase of fixed assets	(274,260)	
(330,400)	Purchase of treasury investments	(38,000)	
-	Purchase of service loans and investments	(10,596)	
	Cash inflows		
106,272	Capital grants received	65,571	
33,844	Disposal of fixed assets	24,503	
617	Disposal of service loans and investments	7,510	
315,400	Disposal of treasury investments	68,000	
17,820	Other capital cash receipts	17,050	
(88,847)	Net cash flow from investing activities		(140,222)
(3,246)	Net cash inflow / (outflow) before financing		(111,382)
	Financing:		
	Cash outflows		
(1,014,730)	Short term loans repaid	(1,152,125)	
(293)	Loans repaid	(9,094)	
(24,874)	Finance lease and PFI scheme principal repayments	(72,957)	
	Cash inflows		
1,022,230	New short term loans raised	1,315,295	
20,000	New loans raised	32,575	
2,333			113,694
(913)	Increase / (decrease) in cash and cash equivalents		2,312
3,765	Balance of cash and cash equivalents brought forward		2,852
(913)	Increase / (decrease) for the year		2,312
2,852	Balance of cash and cash equivalents carried forward		5,164

List of Explanatory Notes to the Main Financial Statements

1. Tangible and intangible fixed assets
2. Borrowing and investments undertaken for capital and treasury management purposes
3. Pensions liabilities
4. Provisions and contingent liabilities
5. Additional information on reported income and expenditure
6. General Government grants
7. Trading with other public bodies under the Local Authorities (Goods and Services) Act 1970
8. Pensions
9. Private Finance Initiative (PFI)
10. Additional notes to the comprehensive income and expenditure account
11. Movements on reserves
12. Earmarked Revenue Reserves
13. Assets
14. Current assets
15. Current liabilities
16. Financial Instruments
17. Long term liabilities
18. Capital accounting
19. Capital financing
20. Unusable statutory revenue reserves
21. Exceptional items and prior period adjustments
22. Excepted items
23. The Council's Group
24. Judgements made by management
25. Assumptions and major sources of estimation uncertainty
26. Events after the reporting date
27. New accounting standards not yet implemented

Explanatory notes - Key Assets and Liabilities Affecting the Council's Financial Standing

The key assets and liabilities which have a material effect on the council's financial standing at the balance sheet date are:

- Tangible fixed assets (i.e. land, buildings and equipment) and intangible assets
- Borrowing and investments undertaken for capital and treasury management purposes
- Pensions liabilities
- Provisions and contingent liabilities

This section of the explanatory notes to the statement of accounts gives an overview of each of these issues.

1 Tangible and intangible fixed assets

The council holds a wide variety of land, buildings, equipment and other fixed assets reflecting the diversity of the services it provides.

Under IFRS accounting, the council's fixed assets are shown within several different headings on the balance sheet. These are :

- Property, plant and equipment – land, buildings and equipment which is used to provide services, or which is under construction and will be used to provide services once completed.
- Heritage assets – assets which are held and maintained principally for their contribution to knowledge and culture, and which are intended to be preserved for future generations. These include historic buildings, and art gallery and museum exhibits.
- Investment property - land and buildings that the council holds to earn rentals, or for capital appreciation. This includes surplus assets which the council intends to sell, but which are unlikely to be disposed of within the next 12 months.
- Assets held for sale - land and buildings that it is probable the council will sell in the next 12 months. This includes council dwellings that are to be sold under the Right to Buy scheme.
- Intangible fixed assets – assets such as software, patents or copyrights, which have no physical substance but which are owned or controlled by the council and generate economic benefit or service potential.

The following table shows the total value of the council's tangible and intangible fixed assets :

31/03/2015	£000s	*31/03/2016*	
3,854,811	Property, plant and equipment	4,124,541	
69,137	Heritage assets	80,398	
18,803	Investment property	27,850	
16,520	Assets held for sale	25,287	
3,959,271	Total land, buildings and equipment		4,258,076
12	Intangible fixed assets		6
3,959,283			4,258,082

Within the above table, Investment properties are measured at their fair value and the remaining assets are measured at their current value. The fair values for investment properties have been derived from market values for similar properties in the same area and therefore falls within Level 2 of the fair value hierarchy, i.e. they are based on observable data. Further information on the valuation basis for property, plant and equipment is given in Accounting Policy 16.2.

The following table gives a breakdown of the movement in the value of fixed assets during the year, and shows how the gains and losses impact on the Income and Expenditure statement and the Movement in Reserves statement. However these gains and losses do not represent the bottom line impact on the General Fund and HRA reserves, as statute requires that the accounting entries are replaced by charges to fund capital expenditure.

31/03/2015	£000s	*31/03/2016*	
3,744,272	1 April		3,959,283
285,520	Capital expenditure on acquisitions		472,731
	Gains / (losses) recognised in Surplus/(Deficit) on the provision of services		
(140,522)	Depreciation and amortisation	(148,545)	
(12,638)	Impairment	(3,720)	
(19,737)	Revaluations	(98,641)	
-	Donations	-	
(67,663)	Disposals	(63,261)	
(240,560)			(314,167)
	Gains / (losses) recognised in Other Comprehensive Income and Expenditure		
172,730	Revaluations	140,967	
(2,679)	Impairments charged to revaluation reserve	(732)	
170,051			140,235
3,959,283	31 March		4,258,082

More detailed information on Property, plant and equipment and on Heritage assets is given in Notes 13.1 and 13.2, and information on gains and losses on disposals is given in Note 5.7.

2 Borrowing and investments undertaken for capital and treasury management purposes

The Prudential Framework for Capital Finance in Local Authorities allows councils to finance some of their capital expenditure by borrowing, provided this is at a level that is prudent and affordable. The extent to which a council has decided to finance its capital expenditure by borrowing is reflected in the borrowing element of its Capital Financing Requirement (see note 19.2). In order to repay past borrowing used to fund capital expenditure on General Fund assets, each year councils are required to set aside an amount known as the Minimum Revenue Provision (MRP). The council's policy is to set its MRP in order to repay new borrowing over the life of the asset which the borrowing has funded.

The actual amount which the council needs to borrow for its long term funding needs will depend on the extent to which its borrowing requirement to fund capital can be offset by the other balances which it holds. Also, in addition to its borrowing requirement to finance capital expenditure, the council manages its day-to-day cashflow situation in the most cost-efficient way possible by making use of short term borrowing and investments.

The council's total debt also includes the acquisition of assets via Private Finance Initiative (PFI) schemes, and via finance leases. Further details of the council's PFI schemes can be found in Note 9.

The following table shows the council's borrowing and investments held for capital funding and treasury management purposes at the balance sheet date :

31/03/2015	£000s	31/03/2016	
	Borrowing		
(1,358,227)	Long term borrowing	(1,366,990)	
(99,324)	Borrowing repayable on demand or within one year	(277,846)	
	Investments made for treasury purposes		
-	Long term investments	-	
30,099	Investments maturing on demand or within one year	-	
1,772	Cash equivalents	4,258	
(1,425,680)	Net borrowing		(1,640,578)
	Other debt financing of fixed assets		
(550,017)	Deferred liabilities - PFI schemes		(650,787)
(3,458)	Deferred liabilities - finance leases		(2,229)
(1,979,155)	Net debt		(2,293,594)

The council seeks to manage the most significant risks associated with its treasury management activities by limiting the value of deposits which can be placed with any one institution and by managing the maturity profile of its borrowing to limit its exposure to interest rate changes in any one year. These limits are set out in its Treasury Management Policy.

Further information on the council's borrowing and investing activities, the financial instruments it holds for service reasons, and the management of risks associated with all of these can be found in Note 16.

3 Pensions liabilities

The council is required to account for its pension costs under IAS19 – Employee Benefits. This means that it is the expenditure and income relating to IAS19 based pensions assets and liabilities that is shown in the accounts, rather than the actual payments made in relation to pensions during the year. The objective of IAS19 is to ensure that the council's financial statements reflect at fair value the future pension liabilities which have been incurred, and the extent to which assets have already been set aside to fund them.

The council's employees include members of three different pension schemes. The majority of non-teaching staff are members of the West Yorkshire Pension Fund (WYPF), and teachers are members of the national Teachers Pension Scheme (TPS). There are also a very small number of former NHS staff who are members of the NHS Pension Scheme. The WYPF is a funded scheme, meaning that it holds assets which are invested to generate income in order to help to pay for future pensions. The assets and liabilities held in the fund can be separately identified to individual employers, and so the fair value of all of its assets and liabilities relating to WYPF pensions can be estimated and included in the council's accounts. The TPS and NHS schemes are unfunded multi-employer schemes and the liabilities relating to individual employers for mainstream pensions cannot be separately identified, and so these pensions are accounted for on a defined contribution basis with expenditure only recorded when payments are due. However, any discretionary pensions awarded to teachers can be separately identified, and so liabilities in respect of these are included in the council's accounts. No discretionary pensions have been awarded to former NHS staff.

The following table gives a breakdown of the council’s net pensions liabilities between the two pension schemes.

31/03/2015	£000s	*31/03/2016*	
(932,804)	WYPF mainstream pensions	(894,073)	
(73,007)	WYPF discretionary pensions	(67,400)	
(1,005,811)			(961,473)
(102,565)	Teachers discretionary pensions		(94,520)
(1,108,376)	Net asset / (liability)		(1,055,993)

The £961m net liability relating to the WYPF represents the difference between the value of the council's pension fund assets at 31st March 2016 and the estimated present value of the future pension payments to which it was committed at that date. These pensions liabilities will be paid out over a period of many years, during which time the assets will continue to generate returns towards funding them. Any significant changes in global equity markets after 1st April 2016 would also have an impact on the capital value of the pension fund assets. The extent to which the expected future returns on assets are sufficient to cover the estimated net liabilities was considered by the actuaries in their most recent full actuarial review of the Pension Fund, carried out as at 31st March 2013. This concluded that the WYPF was 96% funded, and set contribution rates for the next three years which are designed to move the fund towards a fully funded position.

The net pensions liabilities and the corresponding pensions reserve in the Balance Sheet represent a decrease in the overall level of reserves. However, this does not represent a decrease in the cash reserves held by the council, and does not impact on council tax levels. Under the Local Authorities (Capital Finance) (Amendment No2) (England) Regulations, local authorities are not required to fund expenditure relating to an IAS 19 based pensions reserve from council tax.

The following table shows the impact of accounting for pensions on an IAS 19 basis in the council’s Comprehensive Income and Expenditure statement :

	2014/15		£000s		*2015/16*	
WYPF	*Teachers*	*Total*		*WYPF*	*Teachers*	*Total*
818,305	99,391	917,696	1 April	1,005,811	102,565	1,108,376
		-				
		-				
		-	*In Surplus/(Deficit) on the provision of services*			
18,616	(6,372)	12,244	Adjustment for IAS19 based service expenditure	29,102	(6,635)	22,467
-	-	-	Net pensions liabilities for staff transferred			-
33,682	4,042	37,724	Interest cost and expected return on assets	31,037	3,077	34,114
		-				-
		-	*In Other Comprehensive Income and Expenditure*			-
135,208	5,504	140,712	Actuarial gains and losses	(104,477)	(4,487)	(108,964)
1,005,811	102,565	1,108,376	31 March	961,473	94,520	1,055,993

Further information on pensions assets and liabilities, including the assumptions used by the council’s actuaries in carrying out their valuations, can be found in Note 8.

4 Provisions and contingent liabilities

Provisions and contingent liabilities relate to potential future costs which the council may face, but where there is a degree of uncertainty over the extent of the liability. Provisions are raised and charged to expenditure where a liability is known to exist but where its amount or timing are uncertain. Cases where there is a possible liability whose existence is unconfirmed, or where no reliable estimate can be made of the cost of a known liability, are not recorded in the accounting statements but are disclosed below where they have the potential to be material.

4.1 Provisions for current and long term liabilities

The council has a number of provisions in its accounts for liabilities which are expected to be settled either within the next financial year or over a longer period of time. The table below analyses how the balance on each of these types of provision has changed during the year.

Total provisions

£000s	*31/03/2015*	*Provisions raised*	*Provisions used*	*Provisions reversed*	*31/03/2016*	*notes*
Equal pay compensation	4,032	-	(648)	(1,360)	2,024	i
Insurance liabilities	11,138	11,650	(10,145)	-	12,643	ii
Business rates appeals	20,322	7,099	(16,038)	-	11,383	iii
Other	2,861	2,289	(489)	(311)	4,350	
	38,353	21,038	(27,320)	(1,671)	30,400	
Short term provisions	34,690				26,114	
Long term provisions	3,663				4,286	
	38,353				30,400	

i Leeds City Council is in the process of settling claims in respect of equal pay, following the Single Status Agreement introduced in 1997 by the National Joint Council for Local Government Services to bring together manual and white collar employees under one set of terms and conditions of employment. From 2006/07 onwards, compensation payments have been made in relation to some specific groups of employees who were deemed to have been affected. At 31st March 2016, the council has agreed compensation offers in principle for a number of employees in specific groups, which it is in the process of settling. The closing value of the provision reflects the estimated cost of the remaining unsettled claims covered by the agreed offers. The potential for further liabilities arising from equal pay claims is covered in note 4.2 below.

ii The insurance provision covers the value of insurance claims for which the council estimates that it has a potential legal liability. Employee, public liability and motor third party liability claims are covered by external insurance policies which limit the council's maximum liability on individual claims to £500k (£150k for motor third party liability claims). The council is also limited to a maximum total liability across all employee and public liability claims of £10m per year from 2009/10 onwards and £12m for each of the previous six years. Included within the provision is £0.9m (£1.9m at 31st March 2015) in respect of housing disrepair claims.

It is expected that some insurance claims will be settled within the next financial year and others over a longer period of time, but it is not possible to say on a claim-by-claim basis when particular claims will be settled. Based on previous experience, the value of claims expected to be settled after more than a year has been estimated as £4,286k (£3,663k at 31st March 2015) and this amount has been shown in the balance sheet as a provision for long term liabilities.

Details of contingent liabilities relating to insurance appear in section 4.2 below.

iii Under the current arrangements for local retention of business rates, the council receives a fixed proportion (49%) of the business rates it collects, rather than collecting the business rates on behalf of the government in return for a share of the national business rates pool. This means that the council is required to include in its accounts its own share of the assets and liabilities arising from the collection of business rates. The provision for the estimated cost of appeals is £9,891k (£20,322k at 31st March 2015).

4.2 **Contingent liabilities**

Contingent liabilities are required to be disclosed but they are not included within financial statements. They include cases where there is the potential that the council may incur future costs but the possible obligation is dependent on future events, and cases where the council has a present obligation but the cost of settling it cannot be estimated with sufficient reliability to justify the raising of a provision.

The council had the following contingent liabilities at 31st March 2016:

a General

The council has a number of general litigious matters ongoing which could result in payments totalling £1.46m (£1.34m at 31st March 2015).

b Specific

i Insurance claims. The council has been advised by its actuaries that the value of outstanding legal liability claims against it is £22.6m (£23.6m at 31st March 2015). It is estimated that if successful £3.2m of these claims will be met by the Council's external insurers (£0.2m at 31st March 2015) leaving a balance of £19.4m where any liabilities would be met by the council. A provision has been set aside on the Balance Sheet to the value of £12.6m (see note 4.1 above) for the estimated future settlement of these claims. The contingent liability value for insurance claims therefore stood at £6.8m at 31st March 2016 (£12.4m at 31st March 2015).

ii Prior to 1992, the council's public liability and employer's liability insurance were supplied by Municipal Mutual Insurance Ltd. In 1992 the company ceased to accept new business and entered a run off period. In 1994, a Scheme of Arrangement under the Companies Act 1985 was put in place, under which if the company became at risk of insolvency, it would be able to claw back the necessary percentage of the claims it had paid out since the commencement of the Scheme of Agreement. Under this scheme the council has made payments totalling £1.2m and there is potential for further claims in the future.

iii Equal pay claims. Arising from the 1997 Single Status Agreement, the council has included in its accounts a provision for the estimated cost of compensation payments where a settlement offer has been made in relation to a specific group of outstanding equal pay claims (see note 4.1 for further details). However, the council recognises the potential that further equal pay claims may arise, some of which may lead to additional compensation agreements or to employees taking employment tribunal action. It is not possible to estimate with any certainty the likely financial impact in advance of such claims being made.

iv In 1988 the council issued an undertaking regarding a potential structural defect to a number of former council houses. The undertaking given related to properties of a particular construction on one estate, and applied only if the specified defects became apparent. A small number of claims have been received, but to date there is no indication that the council is likely to incur a significant liability in relation to this undertaking.

Further explanatory notes to the main financial statements

These notes provide information that supports, and helps in interpreting, the main financial statements.

5 Additional information on reported income and expenditure

5.1 Leeds City Council outturn position and organisational structure

The Comprehensive Income and Expenditure Account included in local authorities' Statement of Accounts shows its income and expenditure on the basis of IFRS (International Financial Reporting Standards), and is therefore comparable to other types of organisations both within the public sector and beyond. Further, within this statement the net cost of services is required to be broken down by national standard definitions of services, to assist readers in making comparisons between different authorities. However, neither this accounting basis for reporting overall results nor this breakdown of services reflects how the council manages its finances in practice.

In governance terms, the council is accountable to council tax payers for the outturn position on the General Fund reserve and to its domestic tenants for the outturn position on the HRA reserve. The amounts chargeable to a local authority's council tax payers and to HRA tenants for the year show significant differences from the net expenditure position on an accounting basis. They are controlled by legislation, and include a number of statutory adjustments and transfers to specific reserves. These are designed to ensure that the amounts chargeable to council tax payers and tenants for the year are a fair reflection of the services provided to them during that year. All of the council's internal reporting of its financial position is therefore focussed on the outturn position on its General Fund and HRA reserves.

In practice, local authorities organise service delivery in response to the needs and conditions in their area, and the council's internal directorate structure does not align with the standard service definitions. All internal reporting of the council's financial position is broken down on the basis of its directorate structure, which reflects management responsibilities.

The table below reflects the actual reporting within the council of the outturn positions for the General Fund and the Housing Revenue Account, in terms of the council's organisational structure.

Outturn position – Leeds City Council organisational units

2014/15		*2015/16*			
net outturn	£000s	*gross expenditure*	*gross income*	*transfer to reserves*	*net outturn*
51,881	City Development	128,811	(85,553)	(194)	43,064
68,006	Environment & Housing	166,872	(109,765)	1,011	58,118
133,201	Children's Services	299,430	(166,986)	(6,144)	126,300
14	Schools	551,641	(549,051)	(2,590)	-
197,853	Adult Social Care	267,939	(74,641)	(1,867)	191,431
61,151	Central and Corporate Functions	402,164	(341,567)	(689)	59,908
16,435	Civic Enterprise	88,718	(66,580)	-	22,138
106	Public Health	48,756	(50,267)	1,789	278
43,511	Central Accounts	101,379	(75,799)	(2,355)	23,225
572,158		2,055,710	(1,520,209)	(11,039)	524,462
(568,477)	RSG, Business Rates & Local Taxation	-	(523,681)	-	(523,681)
3,681	Total General Fund	2,055,710	(2,043,890)	(11,039)	781
(18,150)	Housing Revenue Account	244,408	(257,037)	28,889	16,260

5.2 Reconciliation between reported outturn position and total comprehensive income and expenditure

The following table analyses the differences between the council's reported outturn position on its General Fund and HRA reserves and its total comprehensive income and expenditure shown in the Comprehensive Income and Expenditure Account.

2014/15	*£000s*	*2015/16*	
3,681	General fund outturn (surplus) / deficit		781
(18,150)	HRA outturn (surplus) /deficit		16,260
(14,469)	Overall outturn position		17,041
	Amounts not included in the Comprehensive Income and Expenditure Account - Transfers to other usable revenue reserves		
(17,842)	Transfers (to) / from earmarked reserves		11,039
	Amounts not included in the Comprehensive Income and Expenditure Account - Statutory items relating to capital accounting and financing		
185,538	Transfer impact of capital charges to capital reserves	265,316	
(121,671)	Transfer capital grants received to usable capital reserves	(86,980)	
(41,887)	General Fund Minimum Revenue Provison for debt redemption	(29,818)	
(14,347)	HRA transfers to capital reserves for repayment of debt	(28,982)	
(212)	Transfers to capital reserves to fund capital expenditure	(694)	
33,742	Transfer net (gain) / loss on disposal of assets to capital reserves	37,901	
-	Transfer gain on donated assets to reserves	-	
5,144	Transfer from capital reserves to fund pooling of HRA capital receipts	5,888	
(56,189)	Transfer HRA major repairs allowance to major repairs reserve	(69,284)	
(9,882)			93,347
	Amounts not included in the Comprehensive Income and Expenditure Account - Other statutory items		
49,968	Transfer to / (from) Pensions reserve	56,581	
471	Transfer to / (from) Financial instruments adjustment account	670	
22,477	Transfer to / (from) Collection Fund adjustment account	6,178	
425	Transfer to / (from) Accumulated absences account	(407)	
73,341			63,022
	Unrealised items of income and expenditure not affecting usable reserves and not reported within Outturn		
(170,105)	(Surplus) / deficit on revaluation of fixed assets	(140,235)	
(29)	(Surplus) / deficit on revaluation of available-for-sale assets	(96)	
140,712	Remeasurements of the net defined benefit liability / (asset)	(108,964)	
(29,422)			(249,295)
1,726	Total comprehensive income and expenditure (council)		(64,846)

5.3 **Subjective analysis for individual organisational units**

The following tables show an analysis of the outturn for each organisational unit by type of expenditure (a subjective analysis)

a City Development

2014/15	£000s	2015/16	
	Expenditure		
59,251	Employee Expenses	51,822	
89,222	Other Running Expenses	76,836	
150	Agency Payments	152	
1	Transfer Payments	1	
148,624	Total Expenditure		128,811
	Income		
(16,394)	Government grants and contributions	(15,330)	
(78,926)	Fees, charges and other service income	(70,259)	
-	Interest and investment income	36	
(95,320)	Total Income		(85,553)
	Transfers to Reserves		
(1,423)	Transfer to/(from)other earmarked reserves	(194)	
(1,423)	Total transfers to reserves		(194)
51,881	Outturn position		43,064

b Environment & Neighbourhoods

2014/15	£000s	2015/16	
	Expenditure		
66,645	Employee Expenses	74,182	
77,956	Other Running Expenses	82,227	
11,332	Agency Payments	10,463	
5	Transfer Payments	-	
155,938	Total Expenditure		166,872
	Income		
(885)	Government grants and contributions	(4,080)	
(86,965)	Fees, charges and other service income	(105,685)	
(10)	Interest and investment income	-	
(87,860)	Total Income		(109,765)
	Transfers to Reserves		
(72)	Transfer to/(from) other earmarked reserves	1,011	
(72)	Total transfers to reserves		1,011
68,006	Outturn position		58,118

c Children's Services

2014/15	£000s	*2015/16*	
	Expenditure		
108,236	Employee Expenses	100,654	
109,179	Other Running Expenses	114,577	
80,392	Agency Payments	81,395	
2,647	Transfer Payments	2,804	
300,454	Total Expenditure		299,430
	Income		
(109,094)	Government grants and contributions	(105,854)	
(57,309)	Fees, charges and other service income	(61,131)	
(1)	Interest and investment income	(1)	
(166,404)	Total Income		(166,986)
	Transfers to Reserves		
(849)	Transfer to/(from) other earmarked reserves	(6,144)	
(849)	Total transfers to reserves		(6,144)
133,201	Outturn position		126,300

d Schools

2014/15	£000s	*2015/16*	
	Expenditure		
343,119	Employee Expenses	350,193	
188,919	Other Running Expenses	193,092	
6	Agency Payments	-	
4,257	Transfer Payments	8,356	
536,301	Total Expenditure		551,641
	Income		
(432,893)	Government grants and contributions	(434,156)	
(111,626)	Fees, charges and other service income	(114,892)	
(3)	Interest and investment income	(3)	
(544,522)	Total Income		(549,051)
	Transfers to Reserves		
1,462	Transfer to/(from) other earmarked reserves	(3,126)	
6,773	School reserves	536	
8,235	Total transfers to reserves		(2,590)
14	Outturn position		-

e Adult Social Care

2014/15	£000s	2015/16	
	Expenditure		
76,170	Employee Expenses	57,289	
22,635	Other Running Expenses	18,679	
161,902	Agency Payments	182,284	
9,343	Transfer Payments	9,687	
270,050	Total Expenditure		267,939
	Income		
(5,979)	Government grants and contributions	(9,897)	
(76,421)	Fees, charges and other service income	(64,744)	
(82,400)	Total Income		(74,641)
	Transfers to Reserves		
10,203	Transfer to other earmarked reserves	(1,867)	
10,203	Total transfers to reserves		(1,867)
197,853	Outturn position		191,431

f Central and Corporate Functions

2014/15	£000s	2015/16	
	Expenditure		
85,370	Employee Expenses	82,677	
33,152	Other Running Expenses	30,138	
536	Agency Payments	15	
294,413	Transfer Payments including benefits	289,334	
413,471	Total Expenditure		402,164
	Income		
(300,336)	Government grants and contributions	(288,428)	
(50,864)	Fees, charges and other service income	(53,139)	
2	Interest and investment income	-	
(351,198)	Total Income		(341,567)
	Transfers to Reserves		
(1,108)	Transfer to/(from) the Capital reserve	(148)	
(14)	Transfer to/(from) other earmarked reserves	(541)	
(1,122)	Total transfers to reserves		(689)
61,151	Outturn position		59,908

g Civic Enterprise

2014/15	£000s	2015/16	
	Expenditure		
36,884	Employee Expenses	45,023	
42,249	Other Running Expenses	43,636	
62	Agency Payments	59	
79,195	Total Expenditure		88,718
	Income		
(177)	Government grants and contributions	(178)	
(62,583)	Fees, charges and other service income	(66,402)	
-	Interest and investment income	-	
(62,760)	Total Income		(66,580)
	Transfers to Reserves		
-	Transfer to/(from) other earmarked reserves	-	
-	Total transfers to reserves		-
16,435	Outturn position		22,138

h Public Health

	£000s	2015/16	
	Expenditure		
4,375	Employee Expenses	4,551	
2,176	Other Running Expenses	1,840	
41,489	Agency Payments	42,365	
48,040	Total Expenditure		48,756
	Income		
(42,117)	Government grants and contributions	(43,354)	
(7,028)	Fees, charges and other service income	(6,913)	
(49,145)	Total Income		(50,267)
	Transfers to Reserves		
1,211	Transfer to/(from) earmarked reserves	1,789	
1,211	Total transfers to reserves		1,789
106	Outturn position		278

i Central Accounts

2014/15	£000s	2015/16	
	Expenditure		
1,773	Employee Expenses	5,620	
70,734	Other Running Expenses	58,014	
37,674	Agency Payments	37,738	
7	Transfer Payments	7	
110,188	Total Expenditure		101,379
	Income		
(21,604)	Government grants and contributions	(29,956)	
(45,664)	Fees, charges and other service income	(45,095)	
(1,068)	Interest and investment income	(748)	
(68,336)	Total Income		(75,799)
	Transfers to Reserves		
(246)	Transfer to/(from) the Capital reserve	(223)	
1,905	Transfer to/(from) other earmarked reserves	(2,132)	
1,659	Total transfers to reserves		(2,355)
43,511	Outturn position		23,225

j Housing Revenue Account

2014/15	£000s	2015/16	
	Expenditure		
33,927	Employee Expenses	26,160	
176,625	Other Running Expenses	214,912	
147	Agency Payments	135	
3,108	Transfer Payments	3,201	
213,807	Total Expenditure		244,408
	Income		
(21,385)	Government grants and contributions	(21,385)	
(228,480)	Fees, charges and other service income	(235,634)	
(69)	Interest and investment income	(18)	
(249,934)	Total Income		(257,037)
	Transfers to Reserves		
17,977	Transfer to/(from) Major Repairs Reserve	28,889	
17,977	Total transfers to reserves		28,889
(18,150)	Outturn position		16,260

5.4 Reconciliation between reported outturn position shown in segmental analysis and net cost of services

The following table explains the differences between the council's reported outturn position on its General Fund and HRA reserves and its net cost of services within the Comprehensive Income and Expenditure Account.

2014/15	£000	2015/16		
(14,469)	Net reported Outturn position per segmental analysis		17,041	
	Amounts included in Outturn reporting but not included in the Comprehensive Income and Expenditure Account			
(17,842)	Transfers to other usable revenue reserves	11,039		
(9,882)	Statutory items relating to capital accounting and financing	93,347		i
73,341	Other statutory items	63,022		i
45,617			167,408	
	Amounts included below Net cost of services in the Comprehensive Income and Expenditure Account			
(34,607)	Other operating expenditure	(40,250)		ii
(137,815)	Financing and investment income and expenditure	(136,992)		ii
761,812	Local taxation and general government grant income	705,063		ii
589,390			527,821	
620,538	Net Cost of Services in Comprehensive Income and Expenditure Statement		712,270	

i A more detailed breakdown of these items can be seen in note 5.2 above.

ii A more detailed breakdown of these items is shown on the face of the Comprehensive Income and Expenditure Account.

5.5 Subjective analysis comprehensive income and expenditure

The following table gives a breakdown by type of income and expenditure of the council's overall results for the year.

2014/15	£000s	2015/16	
	Income		
(459,659)	Fees, charges and other service income	(420,044)	
(1,136)	Interest and investment income	(765)	
(109,375)	Expected return on pension assets	(90,394)	
(244,306)	Income from council tax	(254,280)	
(163,126)	Non domestic rates income	(173,741)	
(1,243,830)	Government Grants	(1,119,508)	
(2,221,432)	Total Income		(2,058,732)
	Expenditure		
828,452	Employee expenses	820,234	
968,296	Other service expenses	904,879	
172,897	Depreciation, amortisation and impairment	250,906	
98,468	Interest payments	105,712	
1,490	Precepts and levies	1,536	
5,144	Payments to Housing Capital Receipts Pool	5,888	
33,738	Gain or loss on disposal of non-current assets	36,622	
2,761	Gain or loss on investment properties	(2,068)	
(5,765)	(Surplus)/deficit on trading activities	(5,036)	
147,099	Pension interest costs	124,508	
2,252,580	Total Expenditure		2,243,181
31,148	(Surplus)/ deficit		184,449

5.6 **Housing Revenue Account (HRA)**

The HRA Income and Expenditure Account and other movements on the HRA reserve have been consolidated into the council's Comprehensive Income and Expenditure Account on a line by line basis. The components making up the net decrease on HRA reserves of £16.3m (a net increase of £18.1m in 2014/15) are shown as a separate column in the Movement in Reserves Statement.

There is a section reporting in detail on the Housing Revenue Account later in this Statement of Accounts (please see page 80).

5.7 **Gains or losses on the disposal of fixed assets**

The figures shown in the Comprehensive Income and Expenditure account for gains or losses on the disposal of fixed assets represents the difference between the carrying value of assets which have been disposed of and the proceeds of any sale, less any administrative costs of disposal. As well as the sale of surplus assets, the figure includes assets which the council has been required to transfer to other bodies at nil consideration. The most significant element of the loss recorded in both the current and previous financial year is the value of school buildings which have been handed over to other organisations to run them as academies. Transfers of schools led to a loss being recognised of £44.4m in 2015/16 (£36.7m in 2014/15). The table below gives a breakdown of the figures.

2014/15	£000s	*2015/16*	
(33,925)	Receipts from sale of fixed assets	(26,639)	
-	Receipts used to fund disposal costs	-	
(33,925)			(26,639)
	Value of fixed assets disposed of		
36,671	Schools transferred to an Academy	44,434	
-	Schools transferred to a Trust	-	
30,992	Other fixed assets	18,827	
67,663			63,261
33,738	Total (gain) or loss on disposal of fixed assets		36,622

6 **General Government grants**

The table below analyses the grants included within the General Government Grants figure in the Comprehensive Income and Expenditure Account. These are grants which do not relate to any specific service.

The table also gives the value of government grants included in each individual service line within the Net cost of services section of the Comprehensive Income & Expenditure Account.

General Government Grants

2014/15	£000s	2015/16
	General Government Grants	
(172,319)	Revenue Support Grant (RSG)	(124,308)
(45,109)	Private Finance Initiative (PFI) grant	(47,158)
(121,671)	Capital Grants	(86,979)
(47,542)	Non-Ringfenced Government Grants	(51,887)
(386,641)		(310,332)
	Government Grants included in Net cost of services	
(592)	Adult Social Care	(177)
(2,881)	Central Services	(2,471)
(499,055)	Children's & Education Services	(500,201)
(3,188)	Cultural and Related Services	(2,293)
(519)	Environmental and Regulatory Services	(1,318)
(378)	Planning Services	(903)
(75)	Highways and Transport Services	(129)
(21,385)	Housing Revenue Account	(21,385)
(286,999)	Other Housing Services	(279,719)
(42,117)	Public Health	(43,350)
(857,189)		(851,946)

7 Trading with other public bodies under the Local Authorities (Goods and Services) Act 1970

The Local Authority (Goods and Services) Act 1970 allows local authorities to provide goods and services to various other public bodies, and requires that the income and expenditure under such contracts is disclosed in an authority’s statement of accounts. For 2015/16, the council generated £1,436k of income under such contracts, and incurred costs of £1,069k. The comparative figures for 2014/15 were £1,582k of income and £1,302k of costs.

8 Pensions

An overview of the impact of pensions within the council’s accounts is given in Note 3 on page 24. This note gives further information on the pensions assets and liabilities included in the council’s accounts, and details the actuarial assumptions used in estimating them.

8.1 West Yorkshire Pension Fund (WYPF)

The West Yorkshire Pension Fund is treated as a defined benefit scheme under IAS 19, since the council's liabilities to its current and former employees can be identified within the fund, and the council will be liable to meet these irrespective of the future performance of the fund. The figures relating to West Yorkshire Pension Fund assets and liabilities given below include both mainstream pensions and discretionary increases to pensions.

The last full actuarial valuation to be completed for the WYPF was carried out as at 31st March 2013. In calculating the council's assets and liabilities, the fund's actuaries had to make a number of assumptions about events and circumstances in the future, meaning that the results of actuarial calculations are subject to uncertainties within a range of possible values. The following actuarial assumptions were made:

WYPF – actuarial assumptions

31/03/2015		31/03/2016	
	Financial assumptions		
2.9%	Rate of inflation (RPI)	2.9%	(i)
1.8%	Rate of inflation (CPI)	1.8%	(i)
3.3%	Rate of increase in salaries	3.3%	
1.8%	Rate of increase in pensions	1.8%	
3.2%	Discount rate	3.4%	
	Mortality assumptions (years)		
22.6	Longevity at 65 for current male pensioners	22.7	
25.5	Longevity at 65 for current female pensioners	25.6	
24.8	Longevity at 65 for future male pensioners	24.9	
27.8	Longevity at 65 for future female pensioners	28.0	

i Following an announcement by the Government in June 2010, the inflation index used to derive statutory pension increases changed from RPI (Retail Prices Index) to CPI (Consumer Prices Index). Assumptions on the future rate of increase in salaries continue to be based on RPI.

Any change in these assumptions would have an impact on the present value of the defined benefit obligation. The sensitivity analysis below shows the impact on the liability if each assumption changes by 0.1% (or 1 year for mortality assumptions). In each case all other assumptions remain constant.

WYPF – sensitivity analysis of actuarial assumptions

	Impact on defined benefit obligation (funded)	
Change in assumption	%	£000s
Rate of increase in salaries (increase or decrease by 0.1%)	0.5	17,351
Rate of increase in pensions (increase or decrease by 0.1%)	1.4	53,866
Discount rate assumption (increase or decrease by 0.1%)	1.9	71,377
Mortality assumption (increase or decrease by 1 year)	2.6	95,954

WYPF – assets and liabilities

At 31st March 2016, the fund's actuaries estimated that the council had the following assets and liabilities relating to pensions payable through the West Yorkshire Pension Fund:

WYPF – assets and liabilities

31/03/2015	£000s	31/03/2016	
(3,767,622)	Estimated present value of liabilities (funded)	(3,722,998)	
(73,007)	Estimated present value of liabilities (unfunded)	(67,400)	
(3,840,629)			(3,790,398)
2,834,818	Fair value of assets		2,828,925
(1,005,811)	Net asset / (liability)		(961,473)

The following table shows the movements in the pension fund assets and liabilities during the year. Amounts relating to service expenditure shown below appear within the Net Cost of Service in the Comprehensive Income and Expenditure Account, finance gains and losses appear within Financing and Investment Income and Expenditure, and actuarial gains and losses are shown within Other comprehensive income and expenditure.

WYPF – movement in pension assets and liabilities

£000s	present value of defined benefit obligation	plan assets	net
1 April 2015	(3,840,629)	2,834,818	(1,005,811)
Actuarial gains and losses			
- change in financial assumptions	144,580		
- experience gains and losses	34,867		
- change in demographic assumptions	-		
Gain / (loss) on plan assets		(74,970)	
	179,447	(74,970)	104,477
Service expenditure			
Current service cost	(93,642)		
Past Service Cost	(3,368)		
Employer contributions		67,908	
	(97,010)	67,908	(29,102)
Finance gains and losses			
Interest income		90,394	
Interest on pension liabilities	(121,431)		
	(121,431)	90,394	(31,037)
Other movements			
Benefits paid	112,787	(112,787)	
Employee contributions	(24,731)	24,731	
Administration expenses	1,169	(1,169)	
Net transfers in/out			
	89,225	(89,225)	-
31 March 2016	(3,790,398)	2,828,925	(961,473)

The council's net pensions liability has decreased by £44m since 31st March 2015. Although there was a slight loss in the fund assets, this was more than offset by a decrease in the current value of the future liabilities, resulting from changes to the financial assumptions used for the actuarial gains.

WYPF – further information on assets

The following table shows the percentage of the total value of scheme assets made up by different categories of asset.

31/03/2015		*31/03/2016* quoted	*31/03/2016* unquoted	*31/03/2016* total
76.2%	Equities	68.8%	6.4%	75.2%
10.6%	Government bonds	10.7%	0.0%	10.7%
4.7%	Other bonds	4.6%	0.0%	4.6%
4.3%	Property	4.9%	0.0%	4.9%
1.9%	Cash/liquidity	1.3%	0.0%	1.3%
2.3%	Other	1.2%	2.1%	3.3%

Further details on the nature and risks of these assets, and the investment policies of the fund can be found in the West Yorkshire Pension Fund Statement and Explanatory Notes in Bradford Council's Statement of Accounts, that is available at www.bradford.gov.uk, and the West Yorkshire Pension Fund Report and Accounts, that is available at www.wypf.org.uk a Expected contributions to the scheme for 2016/17

The council expects to make contributions of approximately £58,766k to WYPF in 2016/17.

8.2 Teachers' pensions

Teachers employed by the council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the government. The scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The employer's contribution rate is set by the government.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the government uses a notional fund as the basis for calculating the employers' contribution rate. Valuations of the notional fund are undertaken every four years. The scheme has in excess of 3,700 participating employers and consequently the council is not able to identify its share of the liabilities, therefore it is accounted for as a defined contribution scheme. The council's contributions into the Teachers' Pension Scheme during 2015/16 equate to approximately 0.41% of the total contributions for the year.

The employer's contribution rate for the teachers' pension scheme during 2015/16 was 14.1% of pensionable pay between April and August, and the contribution rate increased to 16.4% of pensionable pay from 1st September 2015. The actual amount payable to the teachers' pension scheme by the council for 2015/16 was £25,434k. The council's contributions for 2016/17 are expected to be approximately £27m.

In addition the council has granted discretionary additional pensions to some of its former teachers, for which it is directly responsible. Under IAS 19 guidelines, these discretionary pensions are required to be treated as a defined benefit scheme, with an IAS 19 liability being disclosed. As the council funds these pensions on a 'pay as you go basis, there are no pensions assets for this scheme.

In calculating the pension liability for discretionary teachers pensions, the council's actuaries have used the following assumptions:

Teachers' discretionary pensions – actuarial assumptions

31/03/2015		*31/03/2016*
	Financial assumptions	
1.8%	Rate of inflation (CPI)	1.8%
1.8%	Rate of increase in pensions	1.8%
3.1%	Discount rate	3.4%
	Mortality assumptions (years)	
22.6	Longevity at 65 for current male pensioners	22.7
25.5	Longevity at 65 for current female pensioners	25.6

The council's IAS 19 pensions liability in respect of teachers' discretionary pensions has been calculated as:

Teachers' discretionary pensions – assets and liabilities

31/03/2015	£000s	*31/03/2016*
(102,565)	Estimated present value of liabilities	(94,520)

The movement in the pension liability during the year is broken down in the following table. Amounts relating to service expenditure shown below appear within the Net Cost of Service in the Comprehensive Income and Expenditure Account, finance gains and losses appear within Net

Operating Expenditure, and actuarial gains and losses are shown under Other Comprehensive Income and Expenditure.

Teachers’ discretionary pensions – movement in pension liability

£000s		*liability*
1 April 2015		(102,565)
Service expenditure		
Employer contributions	6,809	
Past service cost / curtailment cost / settlements	(174)	
		6,635
Finance gains and losses		
Interest on pension liabilities	(3,077)	
		(3,077)
Actuarial gains and losses		
Change in financial assumptions	2,736	
Change in demographic assumptions	-	
Experience gain / (loss)	1,751	
		4,487
31 March 2016		(94,520)

The council expects to make payments of approximately £6,809k in relation to teachers discretionary pensions in 2016/17.

8.3 NHS pensions

Council employees who transferred from the NHS are members of the NHS Pension Scheme, administered on behalf of the government. The scheme provides specified benefits upon retirement, and the council contributes towards the costs by making contributions based on a percentage of members’ pensionable salaries. The employer’s contribution rate is set by the government.

In 2015/16 the council made contributions of £272k into the scheme (£284k in 2014/15) at a contribution rate of 14.3%. Contributions for 2016/17 are expected to be £268k.

Details on the pension fund’s assets and its investment policies can be found in the NHS Pension Fund Report and Accounts, that is available at www.nhsbsa.nhs.uk.

9 Private Finance Initiative (PFI)

The council has thirteen PFI schemes where service delivery has commenced, all but one of which have resulted in all of the assets and corresponding liabilities being recognised on its balance sheet. The exception is the contract to provide two Joint Service Centres (see paragraph (j) below for further details).

For all of these schemes, the annual amount payable under the contract is subject to both indexation factors and the contractor's performance in meeting service standards. The council also receives government grant in support of its expenditure on each of the schemes (see note 6 on page 36).The notes below give more information on the nature of each scheme:

a Leeds Seven Schools PFI Project

On 31st October 2001 the council entered into a 29-year contract under the Private Finance Initiative for the provision and maintenance of five primary schools and two secondary schools in Leeds. Service commenced between June 2002 and August 2003 and the contract will finish on 31st July 2030. Since the contract started, one of the schools has transferred to academy status and is therefore no longer included in the council's balance sheet.

b Leeds Primary Schools PFI Project

The council entered into a long term contract on 31st March 2004 for the provision and operation of ten primary schools in Leeds. Service for the first school started on 30th March 2005 and commencement for the remaining nine schools took place between July and September 2005. The contract will finish on 31st July 2031.

c Leeds Combined Secondary Schools PFI Project

The council entered into a long term contract for the provision and operation of five secondary schools and one primary school in Leeds on 31st March 2005. The first four schools commenced service in September 2006 and the other two became operational in September 2007. The contract will run until 2033/34. Since the contract started, three of the secondary schools have transferred to academy status. These schools are therefore no longer included as assets in the council's balance sheet.

d Swarcliffe PFI Project

On 16th March 2005 the council entered into a 30-year contract for the refurbishment and maintenance of 1,781 council houses. Service commencement took place in June 2005 and the contract expires on 31st March 2035.

e Street Lighting PFI Project

The council entered into a long term contract on 31st March 2006 for the renewal of 80% of the lighting columns in Leeds over a five year period. The contract includes the operation of the street lighting service in Leeds from July 2006 through to the completion of the contract in June 2032.

f Building Schools for the Future (BSF) Scheme (1)

On 3rd April 2007, Leeds City Council entered into a long term partnership contract with Leeds LEP Ltd, the Local Education Partner ("LEP") in which it is a shareholder, to procure the rebuilding or refurbishment of 14 high schools in Leeds. On the same date the council also entered into a PFI contract for the rebuilding of 4 high schools; service commenced for 3 of these schools in September 2008, and the fourth opened in September 2009. Since the contract started, one of the schools has become an academy. This school is therefore no longer included as an asset in the council's balance sheet. The contract will run until 2034/35.

g Independent Living

In June 2008 the council entered into a 28-year contract for the provision of purpose-built properties on 39 sites enabling people with a learning disability or mental health needs to live in communities of their choosing and to take greater control of their lives. The first of these sites came into service in March 2009, and the remaining sites have become operational on a phased basis. A portion of the income received by the contractor will be received directly by them from tenants as rental. In accordance with the Code the council accounts for this as income to itself, with a matching increase in the annual unitary charge. The council has opted to recognise this income as it falls due rather than to recognise a deferred income balance at the start of the contract.

h Building Schools for the Future (BSF) Scheme (2)

On 13th March 2008, the council entered into a further contract with Leeds LEP Ltd for the building of a new school for West Leeds and Wortley, which opened during 2009/10. The school has subsequently become an academy and is therefore on longer recognised on the council's balance sheet. The contract will run until 2034/35.

i New Leaf Leisure Centres

In 2008 the council entered into a PFI contract for the rebuilding of two "New Leaf" Leisure Centres at Armley and Morley. The two leisure centres became operational in 2010/11, and will be run by the contractor until 2035/36.

j Harehills and Chapeltown Joint Service Centres

In April 2009 the council entered into a contract for the provision of two Joint Service Centres (JSCs) in Chapeltown and Harehills, where the council and National Health Service bodies provide face to face customer services. Both of these buildings became operational during 2010/11. At the conclusion of the contract in 2035/36 the council will have the option to lease the Harehills JSC for the rest of its expected useful life, but it will have no further rights in relation to the Chapeltown JSC. The council has therefore recognised the Harehills JSC as its asset, and is treating expenditure in relation to Chapeltown JSC as a revenue contract which includes an operating lease.

k Holt Park Wellbeing Centre

The council has entered into a contract for the provision of a Wellbeing Centre in the Holt Park area of the city, which provides sports and other community facilities. The centre opened to the public in autumn 2013, and the contract will run until the 2038/39 financial year. At the conclusion of the contract the centre will be owned outright by the council. The council has therefore recognised the centre as an asset on its balance sheet.

l Little London, Beeston and Holbeck Housing Project

The council has entered into a contract for the provision of council dwellings within the Little London, Beeston and Holbeck areas of the city. The scheme involves partly new-built properties and partly major renovations of existing council dwellings. The contract will be for a 20 year period, during which the contractor will maintain the assets and provide a facilities management service.

m Residual Waste Treatment scheme

The council has entered into a contract for the provision of a treatment plant for the processing of residual waste. Following a commissioning period during 2015/16, full service delivery commenced on 31st March 2016. The contract comprises a core period of 25 years during which the council will send all of its waste to the facility and will pay fees as determined under the contract. This will be followed by a further period of 15 years during which the council is not committed to sending its waste to the facility, and will pay at open market rates if it does so. The facility will revert to the council's ownership after this secondary period. Throughout the full 40 years of the contract the facility will generate income towards its operating costs from the sale of recyclable materials and the generation of electricity. During the core 25 year period the contractor will be able to generate further income by processing waste from third parties to utilise spare capacity left after processing the council's waste. During the final 15 years the contractor will be free to operate the facility on a commercial basis. The council has recognised the waste treatment plant as an asset on its balance sheet. Since the contractor will be compensated for the cost of providing the facility partly by the council and partly by third parties, the council has recognised two distinct liabilities on its balance sheet – one to reflect its own liability to pay the contractor and one to reflect the value of the right to earn income from the facility which has been granted to the contractor.

The following table analyses the movement in the value of assets recognised under PFI schemes during the year :

Movement in PFI assets

£000s	*01/04/2015*	*Acquisitions, lifecycle costs*	*Disposals*	*Reval'ns, depreciation, impairment*	*31/03/2016*
Seven Schools	40,742	626		1,679	43,047
Primary Schools	31,226	377		4,939	36,542
Combined Secondary Schools	24,037	1,517		(1,518)	24,036
Swarcliffe Housing	-	1,118		-	1,118
Street Lighting	71,738	-		(2,869)	68,869
Building Schools for the Future (1)	52,392	673		(627)	52,438
Independent Living	15,443	260		1,263	16,966
Building Schools for the Future (2)	-	147		(147)	-
New Leaf Leisure Centres	24,503	50		(2,244)	22,309
Harehills JSC	814	50		566	1,430
Holt Park Wellbeing Centre	12,789	67		(57)	12,799
Little London, Beeston & Holbeck Housing	80,283	60,670		(83,143)	57,810
Residual Waste Treatment Facility	-	138,046		717	138,763
	353,967	203,601	-	(81,441)	476,127

The following table breaks down the movement in the council's recognised PFI liabilities during the year :

Movement in PFI liabilities

£000s	*01/04/2015*	*New liabilities*	*Amounts repaid*	*31/03/2016*
Seven Schools	27,029		(1,322)	25,707
Primary Schools	28,731		(1,058)	27,673
Combined Secondary Schools	85,410		(2,670)	82,740
Swarcliffe Housing	35,539		(1,035)	34,504
Street Lighting	75,529		(2,669)	72,860
Building Schools for the Future (1)	95,870		(2,690)	93,180
Independent Living	52,560		(1,780)	50,780
Building Schools for the Future (2)	30,892		(940)	29,952
New Leaf Leisure Centres	24,982		(682)	24,300
Harehills JSC	4,921		(128)	4,793
Holt Park Wellbeing Centre	15,733		(306)	15,427
Little London, Beeston & Holbeck Housing	72,821	60,670	(25,041)	108,450
Residual Waste - Council's Liability	-	111,825	(31,404)	80,421
Residual Waste - 3rd Party Deferred Incom	-	26,221	-	26,221
	550,017	198,716	(71,725)	677,008

The following table analyses the council’s PFI liabilities at the balance sheet date over the years in which they will be written down from unitary charge payments :

£000s	*Payable in 1 Year*	*Payable in 2-5 Years*	*Payable in 6-10 Years*	*Payable in 11-15 Years*	*Payable in 16-20 Years*	*Payable in 21-26 Years*	*Total*
Seven Schools	958	4,586	9,135	11,028			25,707
Primary Schools	1,190	6,160	8,112	12,211			27,673
Combined Secondary Schools	3,592	11,342	16,592	30,553	20,661		82,740
Swarcliffe	938	3,842	6,465	10,218	13,041		34,504
Street Lighting	2,772	12,917	19,231	35,796	2,144		72,860
Building Schools for the Future (1)	2,897	13,465	21,666	29,087	26,065		93,180
Independent Living	1,936	4,172	9,369	11,529	22,336	1,438	50,780
Building Schools for the Future (2)	967	4,449	6,997	9,202	8,336		29,951
New Leaf Leisure Centres	654	2,877	5,136	6,922	8,711		24,300
Harehills JSC	130	659	1,048	1,396	1,560		4,793
Holt Park Wellbeing Centre	321	1,432	2,153	3,288	4,944	3,289	15,427
Little London, Beeston & Holbeck Housir	4,295	20,075	33,542	34,362	16,176		108,450
Residual Waste - Council's Liability	2,149	13,638	24,635	22,357	14,855	2,787	80,421
Total Liabilities	22,799	99,614	164,081	217,949	138,829	7,514	650,786

The following table shows the future interest costs expected to be incurred in relation to the above liabilities over the life of the schemes. The figures shown for the Waste Treatment Facility are those costs which will be incurred directly by the council, and do not include costs to be recovered by the contractor from third parties.

£000s	*Payable in 1 Year*	*Payable in 2-5 Years*	*Payable in 6-10 Years*	*Payable in 11-15 Years*	*Payable in 16-20 Years*	*Payable in 21-26 Years*	*Total*
Seven Schools	1,876	6,737	5,691	1,477			15,781
Primary Schools	2,057	7,368	6,792	2,736			18,953
Combined Secondary Schools	5,834	21,194	21,439	12,563	1,092		62,122
Swarcliffe	2,787	10,300	10,886	7,410	1,828		33,211
Street Lighting	5,757	20,414	19,039	7,245			52,455
Building Schools for the Future (1)	5,939	21,565	21,141	12,704	2,139		63,488
Independent Living	3,654	13,657	14,399	10,391	4,120		46,221
Building Schools for the Future (2)	1,800	6,518	6,370	3,816	675		19,179
New Leaf Leisure Centres	1,872	6,916	7,057	4,578	1,211		21,634
Harehills JSC	263	962	952	610	154		2,941
Holt Park Wellbeing Centre	1,181	4,454	4,861	3,774	2,137	204	16,611
Little London, Beeston & Holbeck Housir	9,226	32,825	29,686	15,976	1,691		89,404
Residual Waste Treatment Facility	2,249	10,613	7,892	6,627	3,495	6,477	37,353
Total	44,495	163,523	156,205	89,907	18,542	6,681	479,353

Under PFI contracts, the operator provides annual revenue services in addition to providing the asset or assets. In future years, the council will pay the contractor for the services it provides during each year in accordance with the terms set out in the contract. The Code recommends the disclosure of an estimate of the level of the revenue costs that have not yet been incurred under the contracts. However it should be noted that by the nature and duration of these schemes and the number of factors which will affect both the services provided and their cost, this can only be a broad estimate. The figures below represent an indication of the potential future costs, and do not represent a contractual commitment by the council to pay the specific amounts disclosed. Future PFI scheme revenue costs represent a very small percentage of the Council’s annual revenue expenditure over the 25 year . The figures shown for the Waste Treatment Facility are those which will be incurred directly by the council, and do not include costs to be recovered by the contractor from third parties.

£000s	Payable in 1 Year	Payable in 2-5 Years	Payable in 6-10 Years	Payable in 11-15 Years	Payable in 16-20 Years	Payable in 21-26 Years	Total
Seven Schools	2,389	10,007	14,862	15,173			42,431
Primary Schools	1,771	7,561	10,721	12,742	1,204		33,999
Combined Secondary Schools	3,870	16,570	23,686	26,761	14,760		85,647
Swarcliffe	3,657	15,413	22,483	26,787	33,393		101,733
Street Lighting	5,113	22,856	32,236	42,822	2,437		105,464
Building Schools for the Future (1)	3,919	15,864	22,137	24,971	18,440		85,331
Independent Living	1,167	4,854	7,214	7,823	10,036	62	31,156
Building Schools for the Future (2)	938	3,999	5,586	6,296	4,772		21,591
New Leaf Leisure Centres	941	4,017	5,610	6,332	5,917		22,817
Harehills JSC	104	441	617	1,051	1,387		3,600
Holt Park Wellbeing Centre	672	2,849	3,946	4,444	5,010	2,683	19,604
Little London, Beeston & Holbeck Housir	2,219	13,699	19,178	22,135	12,937		70,168
Residual Waste Treatment Facility	1,843	10,144	10,194	13,381	19,256	44,372	99,190
Total	28,603	128,274	178,470	210,718	129,549	47,117	722,731

Lifecycle costs relating to the schemes are accounted for as grant funded capital expenditure.

10 Additional notes to the comprehensive income and expenditure account

This section brings together notes about spending in particular areas and on transactions with related parties. Councils are required to disclose information on these areas, and the transactions covered are included within the Comprehensive Income and Expenditure Account but are not sufficiently material to appear as individual figures within it.

10.1 Dedicated Schools Grant

Expenditure on schools is funded primarily by grant funding provided by the Department for Education (DfE), as a separate Dedicated Schools Grant (DSG). An element of the DSG is recouped by the DfE to fund academy schools within the authority area. The use of the DSG is restricted by statutory regulations, and the Accounts and Audit Regulations 2011 require local authorities to include a note to their accounts disclosing how the DSG has been used. The DSG must be allocated between the Individual Schools Budget and the Central Schools Budget, and overspends or underspends on the two elements must be accounted for separately. The amount of DSG received by an authority is dependent on pupil numbers, and thus the total grant for the year is not finalised until after the expenditure budget has been allocated.

For 2015/16 the total available DSG funding was £439.9m, however it was agreed that £4.3m of the 2014/15 balance would be carried forward to 2016/17, leaving £435.6m available to be allocated in 2015/16.

Calculation of available DSG

2014/15	£000s	*2015/16*
536,399	Final DSG before Academy recoupment	551,483
(106,100)	Academy figure recouped in year	(123,293)
430,299	Total DSG after Academy recoupment	428,190
10,471	Brought Forward	11,712
(8,318)	Carry forward to 2016/17 agreed in advance	(4,307)
432,452	Total for distribution	435,595

The allocation between Individual Schools and Central Schools budgets is shown in the table below:

Allocation of Schools Budget and Dedicated Schools Grant

2014/15				*2015/16*		
Central schools budget	*Individual schools' budget*	*Total*		*Central schools budget*	*Individual schools' budget*	*Total*
63,500	368,952	432,452	Agreed budgeted distribution	64,890	370,705	435,595
744	(777)	(33)	In year adjustments	6	332	338
64,244	368,175	432,419	Final budgeted distribution	64,896	371,037	435,933
62,080	-	62,080	Actual Central Expenditure	63,915		63,915
-	366,945	366,945	Actual ISB deployed to schools		372,645	372,645
-	-	-	Local Authority contribution			-
2,164	1,230	3,394	In year carry forward	981	(1,608)	(627)
-	8,318	8,318	Carry forward agreed in advance	1,456	2,851	4,307
2,164	9,548	11,712	Total to carry forward	2,437	1,243	3,680

The £0.627m in year carry forward will be added to the 2014/15 carry forward, giving a total of £3.68m DSG funding brought forward into 2016/17. Any underspends on the element of DSG funding allocated to schools will be carried forward within schools reserves (see explanatory note 12).

10.2 Pooled budgets

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

a Joint Commissioning Board for People with Learning Disabilities

The council has a Section 75 Pooled Budget Agreement (previously Section 31 of the 1999 Health Act) with NHS Leeds which has been in place since 1st April 2006. The pooled budget fund is summarised below:

Joint Commissioning Board for People with Learning Disabilities

2014/15	£000s	*2015/16*
	Funding	
77,006	Leeds City Council	86,900
20,209	Clinical Commissioning Groups	22,460
97,215		109,360
	Expenditure on services provided by	
79,903	Independent sector	100,788
17,312	Leeds City Council	8,572
97,215		109,360

b Leeds Community Equipment Services

This is an integrated service managed jointly by NHS Leeds and the council. It holds, delivers, collects and refurbishes a wide range of equipment. Some of the equipment issued by the store is purchased by a pooled equipment fund, which is made up of contributions by the managing agencies, and is provided following assessment and recommendation by a range of health and social care staff. The pooled budget fund is summarised below:

Leeds Community Equipment Services

2014/15	£000s	*2015/16*
	Funding	
2,607	Leeds City Council	2,419
-	NHS Leeds	
3,217	Clinical Commissioning Group	3,381
5,824		5,800
	Expenditure on services provided by	
4,422	Leeds City Council	4,741
1,402	NHS Leeds	1,059
5,824		5,800

c South Leeds Independent Centre

This Section 75 partnership arrangement provides nursing and non-nursing care in an intermediate care unit. It is jointly commissioned by the three Leeds Clinical Commissioning Groups and Leeds City Council. It supports the ongoing commissioning priorities of the Council to work with health partners to reshape services at the intermediate tier and provide a service that is responsive and prevents older people from needing to access more intense care and support services.

The pooled budget is summarised below:

South Leeds Independent Centre

2014/15	£000s	*2015/16*
	Funding	
440	Leeds City Council	440
1,631	Clinical Commissioning Group	1,631
2,071		2,071
	Expenditure on services provided by	
2,071	Leeds Community Healthcare NHS Trust	2,071
2,071		2,071

d Better Care Fund

The council has a Section 75 Pooled Budget Agreement with the three Leeds Clinical Commissioning Groups, which has been effective since 1st April 2015. The pooled budget fund is summarised below:

Better Care Fund

£000s	*2015/16*
Funding	
Leeds City Council	7,946
Leeds South & East Clinical Commissioning Group	17,351
Leeds West Clinical Commissioning Group	20,105
Leeds North Clinical Commissioning Group	12,665
	58,067
Expenditure	
Social Care and Community Health	23,681
Social Care	18,019
Third Sector	6,668
Acute	9,699
	58,067

10.3 Employee remuneration

Under the Accounts and Audit Regulations 2015, local authorities are required to disclose information on their employees' remuneration in three sections. Full details are required for senior employees who have a role in the overall management of the council or who occupy certain statutory posts, and whose annual salary is above £50,000. Those senior officers whose salary is above £150,000 are required to be named.

In addition two summary disclosures are required, covering the numbers of other staff whose total remuneration (i.e. salary plus pension etc.) is above £50,000, and the number and value of all exit packages agreed during the year.

a Senior employees

The following table gives details of the remuneration for senior officers (as defined above) with an annual salary of above £50,000:

Senior employees remuneration

	Employement period	*Salary, Fees and Allowances*	*Employers Pension Contribution*	*Total Remuneration*
		£	*£*	*£*
2014/15				
Chief Executive (Tom Riordan)	1 April 2014 to 31 March 2015	176,367	25,573	201,940
Deputy Chief Executive (Alan Gay)	1 April 2014 to 31 March 2015	161,181	-	161,181
Assistant Chief Executive (Planning, Policy & Improvement) (James Rogers)	1 April 2014 to 31 March 2015	124,151	18,002	142,153
Director of Environment & Neighbourhoods (Neil Evans)	1 April 2014 to 31 March 2015	146,238	21,204	167,442
Director Adult Social Care (Sandie Keene)	1 April 2014 to 30 November 2014	97,609	-	97,609
Acting Director Adult Social Care (Dennis Holmes)	1 December 2014 to 31 March 2015	44,782	6,493	51,275
Director of City Development (Martin Farrington)	1 April 2014 to 31 March 2015	146,266	21,204	167,470
Director of Children's Services (Nigel Richardson)	1 April 2014 to 31 March 2015	149,038	21,610	170,648
Director of Public Health (Ian Cameron)	1 April 2014 to 31 March 2015	153,875	-	153,875
City Solicitor (Catherine Witham)	1 April 2014 to 31 March 2015	98,888	14,299	113,187
2015/16				
Chief Executive (Tom Riordan)	1 April 2015 to 31 March 2016	176,645	25,573	202,218
Deputy Chief Executive (Alan Gay)	1 April 2015 to 31 March 2016	161,157	-	161,157
Assistant Chief Executive (Planning, Policy & Improvement) (James Rogers)	1 April 2015 to 31 March 2016	124,151	18,002	142,153
Director of Environment & Neighbourhoods (Neil Evans)	1 April 2015 to 31 March 2016	146,238	21,204	167,442
Director Adult Social Care (Catharine Roff)	28 April 2015 to 31 March 2016	130,044	18,831	148,875
Acting Director Adult Social Care (Dennis Holmes)	1 April 2015 to 13 April 2015	4,478	649	5,127
Director of City Development (Martin Farrington)	1 April 2015 to 31 March 2016	146,264	21,204	167,468
Director of Children's Services (Nigel Richardson)	1 April 2015 to 31 March 2016	149,387	21,610	170,997
Director of Public Health (Ian Cameron)	1 April 2015 to 31 March 2016	153,030	-	153,030
City Solicitor (Catherine Witham)	1 April 2015 to 31 March 2016	100,432	14,513	114,945

General notes

- No bonuses were paid during 2014/15 and 2015/16.
- No expense allowances were paid during 2014/15 and 2015/16.
- No additional benefits, either in cash or otherwise, were paid during 2014/15 and 2015/16.
- Any officer who acts as an Elections officer does so in a personal capacity and not as an employee of Leeds City Council. Any fees received in this capacity are therefore not included in the above figures.

b Other employees

The following table gives the numbers of employees whose total remuneration is above £50,000 but who are not included in the detailed disclosure for senior employees given above.

Other employee remuneration in excess of £50,000

2014/15			Number of employees	2015/16		
Teachers	*Other Staff*	*Total*		*Teachers*	*Other Staff*	*Total*
69	167	236	£50,000 to £54,999	91	157	248
53	59	112	£55,000 to £59,999	58	46	104
37	61	98	£60,000 to £64,999	32	56	88
20	37	57	£65,000 to £69,999	24	27	51
20	20	40	£70,000 to £74,999	19	30	49
11	15	26	£75,000 to £79,999	7	14	21
5	13	18	£80,000 to £84,999	7	10	17
1	9	10	£85,000 to £89,999	3	3	6
2	8	10	£90,000 to £94,999	2	6	8
2	8	10	£95,000 to £99,999	1	8	9
1	3	4	£100,000 to £104,999	1	1	2
-	3	3	£105,000 to £109,999	1	2	3
-	-	-	£110,000 to £114,999		3	3
-	2	2	£115,000 to £119,999		1	1
1	1	2	£120,000 to £124,999			-
-	1	1	£125,000 to £129,999	1	2	3
-	-	-	£130,000 to £134,999			-
-	-	-	£135,000 to £139,999			-
-	-	-	£140,000 to £144,999			-
-	1	1	£145,000 to £149,999			-
222	408	630		247	366	613

During 2015/16 a number of employees, who are normally paid less than £50k, have left the council under an Early Leavers Initiative and received a lump sum payment. For 2015/16, 6 teachers and 43 other staff have been added to this disclosure due to these one off payments. The equivalent figures for 2014/15 were 4 teachers and 99 other staff.

c Costs of compulsory redundancies and other leavers

The Code requires councils to disclose any costs it has incurred as a result of compulsory redundancies and of staff who have left for other reasons such as voluntary early retirement. The costs shown represent the total cost to the council rather than the amounts actually received by the employee. This includes pension strain payments paid to the West Yorkshire Pension Fund to cover the impact of voluntary early retirements. Since 2010/11 the council has adopted a policy of encouraging voluntary early retirements as the most cost effective means of reducing the size of its workforce. Staff have been allowed to retire early in cases where the additional pension cost will be recovered by the resulting salary savings within 5 years or less. During 2015/16 the council incurred £4.5m of pension strain costs, which are estimated to have resulted in an £23.4m salary saving over 5 years. The comparable figures for 2014/15 were £8.2m of pension strain costs, resulting in a £53.6m salary saving over 5 years.

The following table shows the number and value of exit packages agreed during the year, analysed between compulsory redundancies and other departures, shown in bands of £20k up to £100k, and bands of £50k thereafter. As required by the Code, bands have been combined where this is necessary to ensure that individual exit packages cannot be identified.

Costs of leavers

2014/15			*2015/16*	
Number of packages	*Total cost*		*Number of packages*	*Total cost*
	£			*£*
		Compulsory redundancies		
36	450,017	Up to £99,999	65	192,789
		Other leavers		
425	3,983,336	Up to £19,999	190	1,513,699
108	2,955,829	£20,000 to £39,999	46	1,283,495
55	2,769,490	£40,000 to £59,999	23	1,160,547
26	1,760,488	£60,000 to £79,999	8	544,432
17	1,532,128	£80,000 to £99,999	10	868,510
15	1,737,841	£100,000 to £149,999	11	1,311,394
9	1,557,060	£150,000 to £199,999	4	685,335
2	456,358	£200,000 to £299,999	2	540,817
657	16,752,530		294	7,908,229

10.4 Related parties

Related parties are organisations or individuals with whom the council may potentially enter into transactions other than on an arms-length commercial basis, because of a relationship that exists between the council and the related party. Related parties are individuals or organisations who :

- have the potential either to influence or control the council's activities (for example the UK Government can exercise significant influence over local authorities via legislation or conditions attached to grant funding), or
- those who can be influenced or controlled by the council (for example its subsidiary companies), or
- those who are subject to a common influence from the same source (for example the National Health Service which is also subject to government control)

The Code requires the disclosure of significant related party relationships irrespective of whether any transactions have taken place, and of any material transactions between the council and its related parties to ensure that stakeholders are aware that these transactions have taken place and the amount and implications of such transactions.

Information on the council's related parties is given below:

a Council members

The council maintains a register of all members' disclosable pecuniary interests. Within 28 days of election, Councillors are legally required to inform the council's Monitoring Officer of any pecuniary interests they have. If a Councillor is present at a meeting of the authority, or any committee, subcommittee, joint committee or joint subcommittee of the authority, and has a disclosable pecuniary interest then, if that interest is not registered, must disclose that interest to the meeting and notify the Council's Monitoring officer to have that interest added to the register of interests.

The register of member's interests is open to public inspection as required by Section 29 of the Localism Act 2011. A copy of the register of members' interests is also available to view on the council's website. Where a member has a disclosable pecuniary interest they are precluded from taking any part in meetings or decisions related to their previously disclosed interest, unless an appropriate dispensation has been granted.

In respect of the 2015/16 financial year a number of council members had a controlling interest in a company, partnership, trust or entity. The controlling interest was by way of ownership, or as a director, trustee, governor or partner of an organisation. The existence of the procedures described above ensure that the council is able to both identify where a member has an interest, and take action to ensure that there is no participation in any decisions relevant to their interest. All major decisions are available for public scrutiny and challenge as part of the council's constitutional arrangements.

b Senior officers

Officers falling within the definition of related parties for Leeds City Council are its Corporate Leadership Team, comprising the Chief Executive, the Deputy Chief Executive, the City Solicitor and departmental directors. The definition also covers members of those officers' close families or households.

As in the case of members, there is a code of conduct governing the disclosure of interests held by officers. Under s117 of the Local Government Act 1972, senior officers are required to disclose any pecuniary interests they hold. Furthermore the employee code of conduct precludes an officer from making any decision which is not in the best interests of the council and does not represent value for money.

All key and significant decisions are published on the council's website and are available for public inspection. This framework ensures that both the scope for related party transactions is minimal, and that disclosure is provided where any such transactions may have occurred.

c Other significant related parties

The United Kingdom government and other bodies within the UK public sector which fall within its control are related parties of the council. Apart from the government itself, the most significant of these for the council's activities are National Health Service bodies, with whom the council co-operates in the delivery of various areas of health and social care, and West Yorkshire Combined Authority (WYCA), who determine public transport policy in the region.

Related party transactions with National Health Service bodies amounted to income to the council of £32.7m in 2015/16 (£19.4m in 2014/15), including £1.1m accrued at 31st March 2016. This is mainly made up of the increased CCGs contribution for social care expenditure. An additional £1.6m is held as receipts in advance at 31st March 2016. This income relates to various schemes and includes funded nursing care for local authority funded residents, under Section 49 of the Health and Social Care Act 2001. Payments to NHS bodies amounted to £23.4m in 2015/16 (£20.3m in 2014/15), including £1.4m accrued at 31st March. These payments mainly relate to services commissioned by the Public Health service, which transferred to the council on 1st April 2013.

Related party transactions with WYCA (previously known as West Yorkshire Integrated Transport Authority) amounted to expenditure by the council of £36.4m in 2015/16 (£36.6m in 2014/15). £34m relates to the transport levy paid by the council, and the remainder is payments for transport services provided by the WYCA such as home to school transport, including £1m accrued at 31st March.

The following related party transactions with other entities within the UK public sector are disclosed elsewhere in the accounts:

- Precepting authorities (see the Income and Expenditure and Collection Fund Accounts)
- Local Authority (Goods and Services) Act 1970 (see explanatory note 7)
- West Yorkshire Pension Fund (see explanatory note 3)
- Pooled services (see explanatory note 10.2)
- Government grants (see explanatory note 6)

Agency payments by way of grants made to voluntary organisations for undertaking certain statutory duties on behalf of the council amounted to £13.3m in 2015/16 (£13.6m in 2014/15).

10.5 Audit fees

The Code requires a summary of the fees payable to the council's appointed auditors in relation to the financial year:

Audit fees

2014/15	£000s	*2015/16*		*notes*
308	General audit		232	i
27	Certification of grant claims and returns		16	ii
4	National Fraud Initiative	-		
4			-	
339			248	

i Services carried out under section 5 of the Audit Commission Act 1998

ii Services carried out under section 28 of the Audit Commission Act 1998

11 Movements on reserves

The council's reserves have been split between usable and unusable reserves, and between revenue and capital reserves. Usable revenue reserves and usable capital reserves are the only amounts within total reserves which are available to fund future expenditure. Usable capital reserves can only be used to fund capital expenditure, but revenue reserves can be used to fund either revenue or capital expenditure.

Unusable revenue reserves are those established by statute in order to adjust the timing with which certain items affect council tax payers and housing tenants. For example, the largest statutory revenue reserve relates to pensions liabilities measured under IAS19. The government has determined that current council tax payers and tenants should only be charged with the actual level of pension fund contributions payable by the council, and thus the level of the pensions reserve reflects the extent to which pension liabilities already earned at the balance sheet date will be paid for through future pension fund contributions and income earned from pension fund assets.

Unusable capital reserves reflect unrealised gains on the council's long term assets, and timing differences between the extent to which funding has been set aside for previous capital expenditure, and the extent to which the benefits of that expenditure have been consumed.

The following notes give more detailed breakdowns of the figures shown in the Movement in Reserves Statement.

11.1 Other comprehensive income and expenditure

The following table gives a breakdown of the figures for Other comprehensive income and expenditure shown within the Movement in Reserves Statement.

2014/15	£000s	*2015/16*	
	Gains / (losses) on Capital accounting balances		
170,105	Surplus / (deficit) on revaluation of long term assets	140,235	
29	Surplus / (deficit) on revaluation of available-for-sale assets	96	
170,134			140,331
	Gains / (losses) on Statutory revenue reserves		
(140,712)	Actuarial gains / (losses) on pension fund		108,964
29,422	Total of other recognised gains and losses		249,295

11.2 Statutory adjustments between the accounting basis and the funding basis

The Comprehensive Income and Expenditure Account shows the council's income and expenditure for the year on the basis of International Financial Reporting Standards. However, the amounts actually chargeable to a local authority's General Fund reserves and its Housing Revenue Account, and therefore to its council tax and housing rents, are controlled by legislation and include a number of statutory adjustments and transfers to specific reserves.The statutory adjustments which are required largely relate either to the arrangements for the funding of a local authority's capital expenditure or to the timing with which some items are charged or credited to council tax and housing rents. The table below summarises these adjustments.

2014/15 Total	£000s	2015/16 Total		notes
	Transfers to/(from) the Usable Capital Receipts Reserve			
33,840	Net gain / (loss) on sale of fixed assets - capital receipts	26,660		
(5,144)	Transfer to I&E to fund payment of HRA pooled receipts	(5,888)		
28,696		20,772		
	Transfers to/(from) the Housing Major Repairs Reserve			
17,977	Excess of depreciation charged to HRA over Major Repairs Allowance	28,889		
	Transfers to/(from) the Capital Grants Unapplied account			
121,671	Capital grants received	86,980		
168,344	Total transfers to / (from) usable capital reserves		136,641	
	Transfers to/(from) General Fund and HRA reserves to Statutory revenue			i
(49,968)	Transfer to / (from) the pensions reserve		(56,581)	
(471)	Transfer to / (from) the financial instruments adjustment account		(670)	
(22,477)	Transfer to / (from) the collection fund adjustment account		(6,178)	
(425)	Transfer to / (from) the accumulated absences account		407	
(73,341)	Total transfers to / (from) statutory revenue reserves		(63,022)	
	Transfers to/(from) General Fund and HRA reserves to Capital accounting			
(134,834)	Depreciation and impairment of fixed assets (excl depr'n on HRA assets)		(210,056)	
(30,500)	Capital expenditure defined under statute		(33,592)	
18,008	Grants and contributions for capital expenditure defined under statute		18,727	
(67,664)	Net gain / (loss) on sale of fixed assets - assets written out		(63,328)	
-	Discount granted on repayment of capital long term debtor		(1,233)	
82	Deferral of capital receipts due		-	
41,887	Statutory provision for repayment of debt		29,818	
212	Capital expenditure funded from revenue		694	
-	Donated assets received		-	
3,000	HRA set aside to redeem debt		2,116	
11,347	Other statutory items within the HRA		26,866	
(158,462)	Total transfers to / (from) capital accounting balances		(229,988)	
(63,459)	Net additional amounts to be debited/(credited) to General Fund and HRA		(156,369)	

i A number of adjustments are required or permitted by statute, which have the effect of amending the rate at which certain items of income and expenditure are charged or credited to the General Fund and the Housing Revenue Account :

- The amount by which IAS19 pensions costs differ from the actual pension contributions payable for the year is transferred to or from the Pensions Reserve.
- Premiums and discounts on re-scheduled borrowing are amortised over a number of years from the Financial Instruments Adjustment Account (please see explanatory note 20.1 for further details).
- Differences between the council's Council Tax and Business Rates precepts for the year and its actual local tax income collected are transferred to or from the Collection Fund Adjustment Account (please see note 20.3).
- Liabilities relating to untaken leave entitlements carried forward by staff are transferred to the Accumulated Absences Account (please see explanatory note 20.2).

Details of the total movements in the remaining reserves referred to above can be found in the following notes :

H6 Housing Major Repairs Reserve

18.6 Capital grants unapplied account

18.5 Usable capital receipts reserve

18.2 Capital adjustment account

11.3 Statutory capital adjustments

The table below shows the transfers between usable and non-usable capital reserves that are required by statute for the year.

2014/15	£000s	*2015/16*	*notes*
38,212	Transfer to Housing Major Repairs Reserve - HRA depreciation	40,395	i
1,603	Transfers to Usable capital receipts reserve - long term capital debtors received and capital investments sold	5,255	ii
39,815		45,650	

i Local authorities are required to transfer from the Capital adjustment account to the Housing Major Repairs Reserve an amount equal to the depreciation on HRA properties.

ii Long term debtors which arise either from the disposal of fixed assets or from the repayment of capital loans are required by statute to be treated as capital receipts and credited to the Usable Capital Receipts reserve in the year in which payment is received. As they do not represent income for that year, this is done via a transfer from the Deferred capital receipts account and the Capital adjustment account respectively.

11.4 Transfers to fund new capital expenditure and to repay capital debt

The following table gives a breakdown of the amounts which the council has transferred from its usable capital reserves to the Capital Adjustment Account (see note 18.2) to fund new capital expenditure for the year and to fund the repayment of credit arrangements and capital borrowings. Details of the total movements on the individual reserves affected by these items can be found in the explanatory notes referred to below.

2014/15	£000s	*2015/16*	*notes*
20,858	Transfer from Usable Capital Receipts Reserve	23,870	18.5
54,715	Transfer from the Major Repairs Reserve	87,885	H6
100,639	Transfer from Capital Grants Unapplied account	112,313	18.6
176,212		224,068	

12 Earmarked Revenue Reserves

Leeds City Council has a number of earmarked reserves set aside for specific purposes.

Earmarked revenue reserves

£000s	*31/03/2015*	*net movements*	*31/03/2016*	*notes*
Schools reserves	22,669	1,545	24,214	a
Central schools block	11,712	(8,031)	3,681	b
Extended schools	10,464	(270)	10,194	c
Total schools reserves	44,845	(6,756)	38,089	
Capital reserve	5,116	640	5,756	d
Government grants in advance	7,710	(1,474)	6,236	e
Early leavers initiative	2,000	-	2,000	f
Health and Social Care reserves	17,448	(2,162)	15,286	g
Other reserves	8,278	(1,287)	6,991	h
Total earmarked revenue reserves	85,397	(11,039)	74,358	

a Schools reserves

In accordance with section 48 of the School Standards and Framework Act 1998, the Leeds Scheme for the financing of schools provides for the carry forward of individual school surpluses. School reserves have increased by a net £1.5m in 2015/16, which partly reflects a £0.8m increase in aggregate school balances, borrowing from the reserves to fund initiatives on safeguarding and learning, and the repayment of previous borrowing from school reserves. At the close of 2015/16, net borrowing from schools reserves amounted to £5.4m. Thus the actual reserves available to schools are £28.7m. In the event of schools needing to call on their available reserves, the amounts not yet repaid would be transferred from the General Fund reserve.

b Central schools block

The Central Schools Budget comprises centrally managed pupil orientated services funded from the ring-fenced Dedicated Schools Grant. Any in year net surplus or deficit is carried forward to the schools budget in the following year.

c Extended Schools Reserve

Extended school activity is an initiative to make greater use of school facilities to provide wider community access and provide extended services such as quality childcare, study support activities and parenting support. Such activities are expected to broadly break even in the medium term and any net surplus or deficit is carried forward to the following financial year.

d Capital reserve

Directorate contributions towards the prudential borrowing costs of capital schemes are appropriated to the capital reserve based on the life of the asset. These contributions are released back to revenue to cover the actual cost of the debt over the life of the loan.

e Government grants in advance

Under IFRS accounting requirements, the council recognises income for the grants that it receives as soon as it has satisfied all of the grant conditions, rather than recognising them as income only when the associated expenditure which they are to fund occurs. This means that in many cases grant income is recognised in an earlier financial year than its associated expenditure. The council has therefore established a reserve to hold such grant income separately until the expenditure which it is to fund occurs.

f Early leavers initiative

The council set aside a reserve to fund the future up-front costs of its early leavers initiative. Under this initiative, the council has adopted a policy of encouraging voluntary early retirements as the most cost effective means of reducing the size of its workforce. Staff have been allowed to retire early in cases where the additional pension cost will be recovered by the resulting salary savings within 5 years or less.

g Health and Social Care reserves

Funds received from health partners relating specifically to agreements with the council have been set aside in four individual reserves. The purpose of these reserves is to help deliver an Integrated Health and Social Care system, and information management and technology developments that benefit both the health and social care economy under the Health and Social Care agenda. In 2015/16 £2m has been spent during the year.

h Other reserves

The council has also set aside several reserves for various purposes, including :

- A £3.3m reserve to address demographic and demand pressures.
- A £0.8m general insurance reserve to meet the costs of future insurance claims.
- A £0.6m reserve created from the fee received for awarding a large casino licence, which aims to support social inclusion objectives.
- A ring-fenced reserve for the taxi and private hire licensing service.

13 Assets

This section provides additional information on the long term assets held on the Balance Sheet.

13.1 Property plant and equipment

a Balance sheet value

This note analyses the movement in the balance sheet value of the council's housing, land and other fixed assets.

The balance sheet value is made up of the cost or valuation, less any accumulated depreciation and impairment.

Cost or valuation is the historical cost or revalued amount of assets at the beginning of the year, plus any additions and revaluations (both positive and negative) during the year. The cost or revalued amount of assets disposed of during the year is written out to give the year end balance.

The deterioration of an asset between formal revaluations is measured by depreciation and impairment due to asset deterioration. The accumulated depreciation for an asset is written out when the asset is revalued, and all accumulated depreciation and impairment values are written out when an asset is disposed of.

The following table shows a breakdown of the carrying value of fixed assets on the balance sheet, and the movements in the carrying value during the year, for each category of fixed assets.

Balance sheet movements

Property plant and equipment £000s	*Council dwellings*	*Other land & buildings*	*Infrastructure*	*Vehicles, plant, eqpt*	*Community assets*	*Assets under construction*	*Total fixed assets*
Cost or valuation	1,370,827	1,829,574	892,207	235,121	52,336	107,293	4,487,358
Accumulated depreciation and impairment	(4,762)	(199,018)	(249,904)	(170,300)	(8,563)	-	(632,547)
Balance sheet value as at 1 April 2015	1,366,065	1,630,556	642,303	64,821	43,773	107,293	3,854,811
Depreciation	(30,674)	(66,177)	(28,178)	(22,388)	(1,121)		(148,538)
Additions	174,896	210,827	81,865	16,154	3,299	(15,792)	471,249
Donations	-	-	-				-
Impairments (charged to cost of services)	(797)	(2,923)	-				(3,720)
Impairments (charged to revaluation reserve)	(13)	(719)	-				(732)
Revaluations (charged to cost of services)	(92,753)	(7,957)	-				(100,710)
Revaluations (credited to revaluation reserve)	(6,937)	137,653	-				130,716
Disposals	(4,156)	(49,407)	-	-			(53,563)
Changes in classification	(14,692)	(10,280)	-		-		(24,972)
Balance sheet value as at 31 March 2016	1,390,939	1,841,573	695,990	58,587	45,951	91,501	4,124,541
Comprising:							
Cost or valuation	1,399,608	2,561,286	974,071	251,275	55,635	91,501	5,333,376
Accumulated depreciation and impairment	(8,669)	(719,713)	(278,081)	(192,688)	(9,684)	-	(1,208,835)

b Nature of asset holding

This table shows whether assets recognised on the balance sheet at 31st March 2016 are owned by the council, leased, or part of a PFI arrangement. Further details of PFI contracts can be found in explanatory note 9.

Nature of asset holding

Property plant and equipment £000s	*Council dwellings*	*Other land & buildings*	*Infrastructure*	*Vehicles, plant, eqpt*	*Community assets*	*Assets under construction*	*Total fixed assets*
Owned	1,390,939	1,464,032	627,121	58,587	44,334	33,691	3,618,704
Finance Lease	-	26,266	-	-	1,617	-	27,883
PFI	-	351,275	68,869	-	-	57,810	477,954
	1,390,939	1,841,573	695,990	58,587	45,951	91,501	4,124,541

c Valuation periods

This table summarises when assets were most recently valued, and so shows the progress of the council's five year rolling programme for revaluation. The bases for valuation are set out in accounting policy 16.

Valuation periods

Property plant and equipment £000s	*Council dwellings*	*Other land and buildings*	*Infrastructure*	*Vehicles, plant, eqpt*	*Community assets*	*Assets under construction*	*Total operational*
Valued at historical cost	-	-	695,990	58,587	45,951	91,501	892,029
Valued at current value in –							
2009/10	-	-	-	-	-	-	-
2010/11	-	-	-	-	-	-	-
2011/12	-	117,550	-	-	-	-	117,550
2012/13	-	237,441	-	-	-	-	237,441
2013/14	72	353,993	-	-	-	-	354,065
2014/15	3,170	568,980	-	-	-	-	572,150
2015/16	1,387,697	563,609	-	-	-	-	1,951,306
	1,390,939	1,841,573	695,990	58,587	45,951	91,501	4,124,541

d Asset valuations

The council's fixed assets are valued on the balance sheet in accordance with the Statement of Asset Valuation Principles and guidance notes issued by the Royal Institution of Chartered Surveyors.

All asset valuations were supervised by the council’s Head of Property Services, who is a Member of the Royal Institution of Chartered Surveyors.

13.2 Heritage Assets

Heritage assets are those assets with historical, artistic, cultural, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture, and are intended to be preserved for future generations. Assets which have some of these characteristics but which are also used for operational purposes are classed as property plant and equipment rather than heritage assets. Such assets are referred to as operational heritage assets.

Heritage assets are held at current value where a valuation is practicable and can be obtained at a reasonable cost, and otherwise at historic cost if this is available. Where no cost or valuation information is available, heritage assets are not included in the balance sheet, but their nature and extent is explained in (b) below.

a Heritage assets included in the balance sheet

The council includes two groups of heritage assets in its balance sheet – historic buildings, and artworks and museum exhibits.

i Historic Buildings

The council recognises six buildings on its balance sheet as heritage assets. These are Kirkstall Abbey, Temple Newsam House, Lotherton Hall, Armley Mills, Thwaite Mills and Stank Hall Barn. Also recognised are three listed Venetian Towers and an associated Engine House. These assets have been judged by the council's valuers to be too unique in nature for a current valuation to be practicable, and they are all therefore held at historic cost. Since all of the buildings were acquired many years ago, and some at a nominal cost, the figures for cost included in the balance sheet relate substantially to recent preservation works on the buildings. As the Towers and Engine House were transferred to the council at no cost, their carrying value reflects the cost of restoration works.

All of these buildings are open to the public. Details of opening times and admission charges are available from the council's website.

ii Museum exhibits and works of art – valuable items

The council owns approximately 1.3 million separate works of art and exhibits. It is not considered practical to individually value this entire collection, and so only those items which have a significant value are individually valued and recorded in the balance sheet at their current valuation. These include paintings and historic items of furniture and silverware. Valuations are undertaken by the council's museum curators by comparison with auction sales of similar items, and individual insurance valuations where exhibits are given on loan to other organisations. Valuations are undertaken annually, with the last valuation at 1st March 2015.

In addition to the individually valuable items, recent lower value acquisitions where information on cost is available are also included in the balance sheet.

All of the council's individually valuable works of art and museum exhibits are regularly on public display either in Leeds Art Gallery, Leeds City Museum, or in one of the council's historic buildings. Details of the opening hours for these buildings are available on the council's website. Information on the council's acquisitions and disposals policy for works of art and museum exhibits are given in note (b) below.

The following table shows the breakdown of the movements in the balance sheet value of heritage assets held at cost and at valuation.

Heritage assets

£000s	Historic buildings held at cost	Artworks and museum exhibits held at cost	Total assets held at cost	Artworks and museum exhibits held at valuation	Total heritage assets
As at 1 April 2015	3,962	5,875	9,837	59,300	69,137
Acquisitions and enhancements	870	141	1,011		1,011
Donations	-	-	-	-	-
Revaluations	-	-	-	10,250	10,250
As at 31 March 2016	4,832	6,016	10,848	69,550	80,398

b Heritage assets not included in the balance sheet

Where valuation or cost information cannot be reliably obtained for the council's heritage assets, these assets are not included in the council's balance sheet. The following notes give an indication of the nature and scale of the heritage assets that the council holds which it does not include in its balance sheet.

i Museum exhibits and works of art – overall collections

As explained in note (a) above, the council owns approximately 1.3 million separate works of art and exhibits, and only those items which have a significant individual value are included in the balance sheet. The current overall insurance valuation of the whole collection is £171.3m, meaning that the lesser valued items have been given a collective value of £101.8m. Items within the collection are diverse, ranging from scientific specimens, to period fashion garments, to antique furniture. The council has determined that it would not be practical within a justifiable level of cost to obtain individual valuations for its entire collection.

Due to the extensive nature of the collection, only a limited number of items can be on public display at any one time. Items from within the collection are displayed at the council's various museums, galleries and historic buildings. Details of the opening hours for these buildings are available on the council's website.

The council has a collections development policy which is approved annually. This policy is accessible from the Leeds Museums and Galleries homepage on the internet. The website also provides information on the preservation and management of existing exhibits and works of art, as well as an online catalogue containing information on many items within the council's collections.

ii Civic Regalia

The council owns a number of items of civic regalia, including the mayoral chains, the civic plate and various gifts presented to the council. The entire collection has an overall insurance valuation of £1.2m, but individual items are not valued separately. The council has determined that the cost of valuing individual items would not be justifiable, and so these are not included in the balance sheet.

There is no regular public access to view items of civic regalia, but access for groups can be arranged on request.

iii Historical records

The council provides public access via its website to a comprehensive collection of historical records of births, deaths and marriages.

The council also manages, and owns a substantial portion of, the Leodis photographic archive of Leeds, which is a collection of approximately 58,000 images of Leeds and is available from the Leodis website. A link to the Leodis website can be found on the council's own website.

iv Other local heritage sites

The council is also responsible for a number of ancient monuments and historical sites, war memorials, and sites of special scientific interest. Public access to these varies, and further details can be found on the council's website.

c Operational heritage assets

The council has a number of historically important buildings and other structures which are used for operational purposes and therefore appear in its balance sheet as property, plant and equipment.

Included in this category are Leeds Town Hall, Kirkgate Market and Leeds Corn Exchange (all Grade 1 listed buildings), and Leeds Grand Theatre, Leeds Civic Hall and various other Grade 2* listed buildings. Also included are two of the council's bridges which have ancient monument status, Wetherby bridge and Otley bridge.

13.3 Long term debtors

This note identifies amounts owing to the council which are being repaid over various periods longer than one year. Long term debt which has become due in less than twelve months has been reclassified as short term debt. The following table analyses the council's long term debtors :

Long term debtors

31/03/2015	£000s	*31/03/2016*	*notes*
9,043	Loans made	1,939	
1,510	Amounts due under finance leases	1,484	
8,006	Other debtors	15,344	i
18,559		18,767	

i Other debtors include mortgages issued on Right to Buy council house disposals, and amounts owing from other local authorities arising from the past winding up of various West Yorkshire joint committees.

13.4 Contingent assets

Contingent assets are assets which may possibly arise as a result of past events, and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the council's control. Contingent assets are not accounted for in the financial statements because this could result in the recognition of material gains that may never be realised, but they should be disclosed.

i VAT compound interest claim

Following the repayment of its previous claims relating to the imposition of the 3 year cap on VAT repayments, the council has received ''simple interest'' and has requested compound interest via an appeal to VAT tribunal and has also lodged a number of compound interest claims in the High Court, which are stayed pending the final outcome of the lead cases in the matter.

HMRC have lost the lead case at the Court of Appeal, but have been granted leave to appeal this decision in the Supreme Court. Should HMRC lose the appeal in the Supreme Court, they are likely to prescribe the conditions in which compound interest would be paid. Some of the amounts claimed by the council may meet these criteria. The total amount of the council's claim is £26m.

14 Current assets

The following section provides additional information on the short term assets held on the Balance Sheet.

14.1 Debtors

As the balance sheet represents the position at the end of the financial year, there are monies owed to the council at that date which are yet to be received as cash. The following analysis shows the amounts owed to the council which had not been received at 31st March 2016.

The council also makes provision for outstanding monies which it is anticipated may not be recovered. These amounts are then deducted from the total value of debtors shown in the accounts. An analysis of this provision for bad and doubtful debts is included below.

Debtors

31/03/2015	£000s	*31/03/2016*	
	Government		
19,140	HM Revenue and Customs	23,443	
23,802	Department of Communities and Local Government	40,975	
19,044	Other departments	3,634	
61,986			68,052
	Taxpayers		
29,143	Council Tax	32,713	
7,889	Business rates	6,255	
37,032			38,968
	Group entities		
26	Arms-length Management Organisations	6	
583	Other group entities	638	
609			644
	Public sector organisations		
7,718	Local authorities and other public bodies		9,393
	Other		
9,184	Housing rents	10,053	
65,304	Other - Sundry Debtors	76,272	
74,488			86,325
181,833			203,382
	Provisions for bad and doubtful debts		
(14,932)	Taxpayers	(16,580)	
(4,444)	Housing rents	(4,892)	
(12,142)	Other	(16,118)	
(31,518)			(37,590)
150,315			165,792

The £76.3m of sundry debtors at the year end represents income due to be received from routine fees and charges.

15 Current liabilities

The following section provides additional information on the short term liabilities held on the Balance Sheet.

15.1 Creditors

Since the council's Balance Sheet represents the financial position at the end of the financial year, there are monies owed by the council at that date which have yet to be paid. There are also amounts which the council has received before the end of the financial year which relate to services which have not yet been provided, or are to fund schemes which have not yet taken place. This analysis shows the amounts owed which had not yet been paid and the amounts received in advance as at 31st March 2016.

Creditors

31/03/2015	£000s	*31/03/2016*	
	Government		
15,267	HM Revenue and Customs	15,267	
5,695	Department of Communities and Local Government	6,361	
6,931	Other departments	6,446	
27,893			28,074
	Public sector organisations		
24,800	Local authorities and other public bodies		27,549
	Taxpayers		
3,963	Council Tax	4,198	
3,449	Business Rates	4,077	
7,412			8,275
	Other		
5,106	Housing rents	4,064	
130,437	Sundry creditors	109,139	
135,543			113,203
195,648			177,101
17,297	Receipts in advance	16,498	
17,297			16,498
212,945			193,599

The balance of sundry creditors at the year end relates to payments due for routine goods and services. The balance reflects the normal timing delay between goods and services being provided to the council and invoices being received and processed.

16 Financial Instruments

A financial instrument is any contract which gives rise to a financial asset of one entity (such as cash, an equity instrument or a right to receive cash or an equity instrument) and a financial liability of another (such as an obligation to deliver cash or another financial asset).

16.1 Amounts recognised in the Balance Sheet

Some balance sheet categories, for example current debtors, include both items which are financial instruments and items which are not financial instruments. The table below shows the carrying values of financial instruments included within the various lines of the council’s balance sheet. In accordance with the Code, any accrued interest as at 31st March 2016 is included within the carrying value of the relevant financial instrument, rather than within debtors and creditors.

Carrying values

31/03/2015	£000s	31/03/2016	
	Financial assets		
	Loans and receivables		
30,099	Investments	-	
58,752	Debtors	55,380	
2,000	Long term investments	2,000	
18,559	Long term debtors	18,767	
	Available for sale		
1,298	Long term investments	11,710	
110,708			87,857
	Financial liabilities		
	Financial liabilities at amortised cost		
(1,358,227)	Long term borrowing	(1,366,990)	
(155,321)	Creditors	(139,252)	
(99,324)	Borrowing repayable within one year	(277,846)	
(560,079)	Deferred liabilities	(659,346)	
(2,172,951)			(2,443,434)

16.2 **Recognised gains and losses**

The following table summarises the gains and losses which have arisen in the council's accounts in relation to financial instruments. These are all reflected in the Comprehensive Income and Expenditure Account.

Recognised gains and losses

31/03/2015	£000s	31/03/2016	
	Recognised in Income and Expenditure on provision of services		
	Financial assets		
(1)	Gains / (losses) on disposal of assets available for sale	39	
1,083	Interest receivable on loans and receivables	765	
(2,039)	Net movement in impairment of loans and receivables	(2,966)	
-	Gains / (losses) on disposal of loans and receivables	(1,233)	
	Financial liabilities		
(99,019)	Interest payable	(105,977)	
-	Gains / (losses) on current year disposals	-	
(99,976)			(109,372)
	Recognised in Other comprehensive income and expenditure		
	Financial assets		
(29)	Unrealised gains/(losses) on assets available for sale	96	
1	Disposal of assets available for sale	(39)	
(28)			57
(100,004)	Total recognised gain / (loss)		(109,315)

16.3 Fair value of items carried at amortised cost

The majority of the council's financial instruments are held at amortised cost. Under the Code, councils are required to disclose information comparing the fair values and carrying values for those financial instruments whose carrying value is not a reasonable approximation for fair value. The following table gives this information :

Fair values

31/03/2015 Carrying value	*31/03/2015* Fair value	£000s	*31/03/2016* Carrying value	*31/03/2016* Fair value
		Financial Assets		
		Loans and receivables		
1,510	1,510	Long term debtors - finance leases	1,484	1,484
17,049	18,974	Long term debtors - other	17,283	19,656
2,000	2,055	Long term investments	2,000	2,085
20,559	22,539		20,767	23,225
		Financial Liabilities		
		Financial liabilities at amortised cost		
(1,358,227)	(1,721,284)	Long term borrowing	(1,366,990)	(1,767,241)
(550,017)	(550,017)	Deferred liabilities - PFI schemes	(650,787)	(650,787)
(3,409)	(3,409)	Deferred liabilities - finance leases	(2,177)	(2,177)
(6,653)	(8,672)	Deferred liabilities - other	(6,382)	(8,841)
(1,918,306)	(2,283,382)		(2,026,336)	(2,429,046)

The council has determined that for PFI scheme liabilities and finance lease liabilities, the carrying value represents the best estimate of fair value, as the carrying value is based on the effective interest rate of the contract, which reflects the unique risks associated with that contract. For the remaining financial instruments in the above table, fair value has been estimated using observable data on market rates for similar instruments, and the fair values disclosed therefore fall within Level 2 of the fair value hierarchy. The source of the data used to estimate the fair values is as follows :

- The fair value for long term debtors has been estimated using the PWLB's interest rates for new fixed rate loans with the most appropriate maturity and repayment profile as at 31st March 2016. The figures for long term debtors include the council's portfolios of right to buy housing mortgages, employee car loans and deferred payments for adults social care. In calculating the estimated fair value of these long term debtors, an average lifetime for the portfolios as a whole has been used.

- The fair value for long term investments has been estimated on the basis of market rates for deposits matching the remaining duration of the investments.

- The fair value of borrowing from the PWLB has been estimated on the basis of PWLB new borrowing rates matching the remaining duration of the loans.

- The fair value of borrowing from other lenders has been estimated using market rates for gilts.

16.4 Management of risks arising from financial instruments

There are a number of risks associated with financial instruments which the council is necessarily exposed to. However the council monitors and seeks to manage these risks in order to minimise the potential for losses to occur.

a Credit risk

Credit risk is the risk that amounts due to the council may not be received.

Amounts due to the council from financial assets can arise either from loans and investments made, or from income receivable for goods or services provided by the council.

The majority of the council's loans and investments are made for treasury management purposes, to generate income from available balances. The parameters within which these investments are made are set out within the council's approved Treasury Management Policy. This policy limits the amounts which can be invested with any individual financial institution and with any group of companies, and specifies the levels of independent credit ratings which institutions must hold for the council to invest particular amounts with them. These policy limits do not cover the council's bankers, with whom the council has an unlimited deposit facility. The effect of the policy limits is to restrict as far as is practical the council's exposure to risk from the failure of a financial institution. The council's financial assets held for treasury management purposes have been reviewed for impairment, and the council is not aware of any factors which would suggest that the amounts will not be received in full, and has therefore concluded that no impairment provision is required. Historically, the council has not experienced any defaults on its treasury investments.

In addition to its loans and investments made for treasury management purposes, the council sometimes makes loans for service reasons. Each such transaction is subject to a rigorous financial appraisal before any loan is made, and loans are typically required to be secured on appropriate assets of the borrower. These loans and investments have been subject to an impairment review, and the council has concluded that no impairment provisions are required at 31st March 2016. Historically, the council has not experienced any defaults on its service loans and investments. However a discount was granted by the council on the early repayment of one service loan during 2015/16.

Some of the council's short term trade debtors relate to the provision of goods and services, such as rents, sports centre income and work done for other public sector bodies. The council operates an active debt recovery policy, to ensure that amounts due are collected as promptly as possible. Trade debtors are carried in the council's balance sheet net of an impairment provision, which represents the extent to which the council estimates that the debt may be uncollectable. The impairment provision is estimated on the basis of known factors affecting individual debtors and previous history of uncollectability for types of debtor. All material trade debtors which are past due are reviewed for potential impairment.

The table below shows the gross amounts due to the council from its financial assets, and the amounts which have been impaired due to likely uncollectability. The net carrying value which is shown on the balance sheet represents the maximum credit risk to which the council is exposed.

Credit risk

£000s	*31/03/2016*		
	Gross value	*Impairment value*	*Net value*
Deposits with financial institutions	-	-	-
Accrued interest on deposits	-	-	-
Other investments	3,084	-	3,084
Long term loans	1,939	-	1,939
Other long term debtors	15,344	-	15,344
Trade debtors	65,422	(10,042)	55,380
	85,789	(10,042)	75,747

b Liquidity risk

Liquidity risk is the risk that the council may not have sufficient cash available to meet its day-to-day obligations to make payments.

The council has access to borrowings from both the Public Works Loans Board and commercial lenders to meet its long term spending and shorter term cash flow requirements. By statute, all amounts borrowed by a local authority are secured without priority across all of its revenues. This statutory provision helps to ensure that the council is readily able to access the funds that it needs, and the council has not encountered any difficulty in borrowing to meet its needs during 2015/16. The council therefore considers that it has no significant liquidity risk, so far as it can foresee. However, there is a consequent risk that the council may be obliged to borrow at a time of unfavourable interest rates (see (c) below).

c Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Long term financial liabilities

The majority of the council's long term borrowing is at fixed interest rates, but it also borrows some monies in the form of lender option borrower option loans (LOBOs). Since all of the council's borrowing is held in the balance sheet at amortised cost rather than at fair value, any changes in the fair value of these financial liabilities as a result of fluctuations in market interest rates will not impact on the Comprehensive Income and Expenditure Account. The primary risk associated with fixed rate long term borrowing is that it will mature and require to be refinanced at a time of high interest rates. However, there is also a risk that if interest rates fall, the council may be unable to take full advantage of the lower rates due to holding long term fixed interest borrowing. In order to help manage its interest rate risk, the council operates maximum limits for the percentage of its borrowing which can be at fixed rates and the percentage which can be exposed to interest rate risk (i.e. the percentage which is at variable rates or which is short term borrowing). The maturity profile of long term borrowing is managed to ensure that exposure to interest rate changes is spread evenly over time. The council also constantly reviews the potential for refinancing its existing debt at reduced interest rates. In order to take advantage of continuing low short term interest rates available during 2015/16, the council has retained a relatively high level of short term borrowing during the year. This debt will be refinanced again into long term borrowing when it is prudent to do so.

The council currently has £445m of debt in the form of LOBOs, which equates to 27.3% of its net treasury management borrowing. LOBO agreements have periodic option dates on which lenders can opt to change the interest rate on a loan. One of the factors which might cause a lender to do this is fluctuations in market interest rates. If lenders exercise their option then the council can either repay the loan (at no extra cost) or agree to the change of interest rate for the remaining term of the loan or until the lender has the next option in the loan. If a change in the interest rate is agreed, this would impact on the amounts charged to the income and expenditure account. Due to their structure, LOBOs can be obtained at lower interest rates than fixed rate long term borrowing, but carry an element of cash flow interest rate risk. The council seeks to ensure that this risk in any one year from its LOBO portfolio is minimised, by ensuring that option dates are evenly spread over future years. Of the £445m LOBO debt at 31st March 2016, £80m was exposed to variable rates through lender options in 2016/17, and £55m in 2017/18.

Long term borrowing by date of maturity

31/03/2015	£000s	31/03/2016	
23,812	Maturing in 1 – 2 years	-	
67,871	Maturing in 2 – 5 years	76,683	
114,307	Maturing in 5 – 10 years	105,495	
43,812	Maturing in 10 – 25 years	46,387	
663,425	Maturing in more than 25 years	693,425	
445,000	Variable (lender option borrower option)	445,000	
1,358,227	Borrowing with more than one year to mature		1,366,990
8,812	Long-term borrowing maturing within one year		23,812
1,367,039	Total long-term borrowing		1,390,802

Long term financial assets

The council's long term debtors and those long term investments which are interest-bearing are all at fixed interest rates, and thus will be unaffected by changes in market interest rates.

Sensitivity to market interest rates

As explained above, changes in market interest rates affecting the fair value of financial assets and liabilities would have no impact on their carrying values, as the council currently has no financial liabilities or loans and receivables carried at fair value. However, the council is required to disclose the impact that a hypothetical change in market interest rates during the year would have had on its recognised gains and losses. It should be noted that, had interest rates been higher, the council would in practice have taken different decisions in relation to rescheduling of debt, and to new borrowing and investments undertaken. The likely impact of such different decisions is not possible to quantify. However, the table below shows the extent to which the council's interest payable and interest receivable would have been different had market interest rates during the year been 1% higher than they actually were, calculated based on the actual new and variable rate loans and investments that the council held during the year.

Interest rate sensitivity

2014/15			£000s	2015/16		
Actual	With 1% rate increase	Difference		Actual	With 1% rate increase	Difference
			Recognised in Income and Expenditure Account			
			Financial assets			
1,083	1,816	733	Interest receivable on loans and receivables	765	940	175
			Financial liabilities			
(99,019)	(99,850)	(831)	Interest payable	(105,977)	(107,071)	(1,094)
(97,936)	(98,034)	(98)		(105,212)	(106,131)	(919)

d Other market risks

There are two other forms of market rate risk which could potentially affect a local authority's financial instruments - currency risk and price risk.

Currency risk is the risk that gains or losses will be incurred because of changes in foreign currency exchange rates. The council holds no financial assets or liabilities in foreign currencies, and thus has no currency risk.

Price risk is the risk that the value of a financial instrument will change as a result of market fluctuations. At 31st March 2016 the council holds on its balance sheet £1,084k of long term investments relating to an assisted homebuy scheme under which the council takes an equity stake of up to 50% in the homes being purchased. This value of this long term investment is at risk from fluctuations in housing prices, however the investment was undertaken for policy reasons rather than as a financial investment.

17 Long term liabilities

The following section provides additional information on the long term liabilities held on the Balance Sheet.

17.1 Deferred liabilities

Deferred liabilities include amounts due in relation to assets acquired through Private Finance Initiative (PFI) schemes and under finance leases, returnable bonds and other long term liabilities. The council had the following deferred liabilities at 31st March 2016:

Deferred liabilities

31/03/2015	£000s	*31/03/2016*	*notes*
550,017	PFI scheme liabilities	677,008	i
3,409	Finance lease liabilities	2,177	
8,319	Other liabilities	7,943	
561,745		687,128	

i Further information on PFI schemes appears in Note 9

18 Capital accounting

Accounting practice in local government requires the use of a number of technical and complex capital accounts, some of which are unique to local authorities.

18.1 Revaluation reserve

The Revaluation Reserve represents the level of revaluation gains on the council's fixed assets from 1st April 2007 onwards. The balance of any revaluation gains in the reserve relating to assets disposed of is transferred to the Capital Adjustment Account at the point of disposal.

Revaluation reserve

2014/15	£000s	*2015/16*	
505,355	1 April		644,353
170,052	Revaluation of fixed assets	140,235	
(13,646)	Accumulated revaluations on disposals	(22,766)	
(17,408)	Depreciation adjustment	(22,326)	
138,998			95,143
644,353	31 March		739,496

18.2 Capital adjustment account

The Capital Adjustment Account is used to reflect those capital accounting reserve entries required by the local authority capital accounting regime which are outside normal IFRS. It contains the amount of capital expenditure financed from revenue, capital receipts, capital grants and capital contributions. It also contains appropriations to the income and expenditure account where the total of depreciation and impairment exceeds the council's minimum revenue provision (MRP) for debt repayment. The account is used to write down revenue expenditure funded from capital under statute, long term debtors and investments. In addition, the carrying value of the fixed assets disposed of during the year is written off to the account, along with any accumulated revaluation gains that are transferred from the revaluation reserve.

Capital adjustment account

2014/15	£000s	*2015/16*	
957,914	1 April		967,860
	Capital financing		
20,858	Usable capital receipts	23,870	
18,008	Capital grants and contributions funding REFCUS	18,727	
100,639	Capital grants and contributions from capital grants unapplied	112,312	
54,715	Transfer from Major Repairs Reserve	87,885	
212	Revenue contributions	694	
-	Donated Assets	-	
194,432			243,488
	Other movements		
(131,159)	MRP less depreciation	(220,633)	
(67,663)	Disposal of fixed assets	(63,261)	
13,646	Accumulated revaluations on disposals	22,766	
(30,500)	Write-off of revenue expenditure funded from capital under statute	(33,592)	
17,408	Depreciation above historic cost	22,326	
-	Revaluation reserve of impairments	-	
-	Disposal of long term investments	(28)	
3,000	HRA voluntary set aside	2,116	
11,347	HRA PFI and finance lease principal repayment	26,866	
(565)	Write-down of long term debtors	(7,414)	
(184,486)			(250,854)
967,860	31 March		960,494

18.3 Deferred capital receipts reserve

The deferred capital receipts reserve holds future capital receipts arising from the disposal of long term assets, where the terms of the disposal allow payment to be deferred. Once received, these amounts will be transferred to the Usable Capital Receipts Reserve.

18.4 Available for sale reserve

The available for sale reserve reflects the balance of unrealised gains or losses (other than impairment losses) on available for sale assets included in the Balance Sheet. Any revaluation gains on available for sale assets are recognised as Other comprehensive income and expenditure within the Comprehensive income and expenditure account. When available for sale assets are disposed of, the accumulated balance relating to the asset on the available for sale reserve is transferred to the surplus or deficit on provision of services.

18.5 Usable capital receipts reserve

Income from the disposal of fixed assets is credited to the usable capital receipts reserve, where it is split between usable and reserved elements (see accounting policy 20). The reserved element is paid over to the government’s national pool for redistribution back to local authorities.

The usable element can be applied to the financing of new capital expenditure or remain in this account. Usable capital receipts

2014/15	£000s	2015/16	
14,968	1 April		24,409
	Receipts in year		
30,302	Usable capital receipts	26,030	
5,144	Housing Revenue Account pooled receipts	5,888	
35,446			31,918
	Applied		
-	To repay HRA debt	(884)	
(13,479)	To fund credit arrangements	(16,224)	
(7,379)	To fund new capital expenditure	(6,762)	
(5,144)	Transfer to Revenue - HRA pooled receipts	(5,888)	
(3)	Transfer to Revenue - finance lease income	(3)	
(26,005)			(29,761)
24,409	31 March		26,566

18.6 Capital grants unapplied

Capital grants and contributions received by the council are credited to the capital grants unapplied account when there is an expectation that any conditions related to the grants will be met. These grants and contributions are then used to fund the related capital expenditure when it is incurred. The following table shows the transactions on the reserve during 2015/16:

Capital grants unapplied

31/03/2015	£000s	31/03/2016
132,330	1 April	153,362
121,671	Grants received	86,978
(100,639)	Grants applied to fund capital expenditure	(112,312)
153,362	31 March	128,028

19 Capital financing

19.1 Capital expenditure and funding

Total capital expenditure in 2015/16 was £546.9m (£316.1m in 2014/15). All capital expenditure, including accrued spending, is funded in year.

The following tables analyse capital spending by category of asset and by source of funding:

Capital expenditure

2014/15	£000s	2015/16
285,520	Fixed assets	472,731
30,500	Revenue expenditure funded from capital under statute	33,592
62	Long-term investments and capital loans	10,596
316,082		516,919

Capital financing

2014/15	£000s	2015/16
79,707	Borrowing	91,822
118,647	Grants and contributions	131,040
7,379	Capital receipts	6,762
54,716	Major Repairs Allowance	87,885
212	Revenue contributions to capital	694
55,421	PFI deferred liabilities	198,716
316,082		516,919

The capital expenditure above includes the cost of any borrowing the council undertakes to fund expenditure on assets that take a substantial period of time to complete. The total of these borrowing costs in 2015/16 was £0.3m (£0.1m in 2014/15), using the council's average external borrowing rate of 3.91%.

Significant schemes within the council's capital programme include the Council House Growth Programme, which is delivering a comprehensive programme of new build housing and bringing empties back into use; increasing investment to the council's housing stock; a continuing programme of investment within the Learning Places programme (to increase the number of school places across the city) and to the schools estate through the Schools Capital Maintenance programme; the council continues to address backlog maintenance on district roads/streets including major transport, infrastructure and priority maintenance schemes such as Leeds Flood Alleviation Scheme, Kirkstall Forge Leeds Rail Growth, improvements to Kirkgate Market, continued investment in infrastructure in the Aire Valley Enterprise Zone, investment proposals on the East Leeds Orbital Road and significant regeneration proposals for the South Bank; the change in the workplace programme continues its new ways of working and office rationalisation; phase 2 of the Community Hub programme will be delivered and as a result of the energy from waste facility the council will deliver a major heating development network programme over the next 3 years.

In addition to the capital expenditure in the table above, the council has injected over £1bn into future financial years. The current projected phasing of these is for £417m in 2016/17, £305m in 2017/18, £230m in 2018/19 and £61m in 2019/20.

19.2 Capital Financing Requirement

A local authority's Capital Financing Requirement (CFR) represents the extent to which its cumulative capital expenditure has not yet been funded. It covers capital expenditure which has been financed by borrowing, and the outstanding balances on credit arrangements such as Private Finance Initiative (PFI) contracts and finance leases. Credit arrangements by their nature require annual repayments, and local authorities are required by statute to set aside a minimum amount each year (the Minimum Revenue Provision) from the General Fund to reduce the level of borrowing attributable to past General Fund capital expenditure. Repayments from the HRA to reduce borrowing are voluntary.

The following table shows the movement in the council's CFR for the year, broken down between borrowing, PFI contracts and finance leases.

Capital financing requirement

£000s	*Financed by borrowing*	*Financed by PFI credit arrangements*	*Financed by finance leases*	*Total Capital Financing Reqiuirement*
01 April 15	1,804,587	550,017	3,458	2,358,062
New borrowing	91,822	172,495	-	264,317
Financing transfers	31,404	(31,404)	-	-
Repayments	(34,813)	(40,321)	(1,229)	(76,363)
31 March 16	1,893,000	650,787	2,229	2,546,016

20 Unusable statutory revenue reserves

Unusable revenue reserves are those established by statute in order to adjust the timing with which certain items affect council tax payers and housing tenants.

20.1 Financial instruments adjustment account

The financial instruments adjustment account (FIAA) reflects the cumulative difference between the amounts relating to financial instruments chargeable to the Comprehensive Income and Expenditure Account, and the amounts chargeable to revenue reserves under statutory requirements. The balance on the council's FIAA relates entirely to premiums and discounts on the rescheduling of borrowing carried out in previous years. The Code requires all new premiums and discounts to be reflected in the Comprehensive Income and Expenditure Account as they arise. However, statutory regulations allow premiums to be amortised over a longer period of time, and require this for discounts. The balance on the FIAA represents the net value of past premiums and discounts which have not yet been charged or credited to the General Fund or the Housing Revenue Account.

20.2 Accumulated absences account

Accounting standards require liabilities to be recognised for the estimated value of accrued leave and flexitime which staff carry forward to take in the following financial year. So that this does not adversely impact on council tax payers and housing tenants, the government has introduced statutory regulations to require the impact to be transferred to an Accumulated Absences Account shown within Unusable statutory revenue reserves in the balance sheet.

20.3 Collection fund adjustment account

Under statute, the council tax and business rates income which an authority is required to credit to its General Fund for the year is its budgeted precepts for these two items. However, the actual income attributable to the authority for the year is likely to vary from the precept, due to changes in the tax base (i.e. the number of households in different council tax bands and the number of commercial properties within the authority's area) which have happened since the budget was set. The council's Comprehensive Income and Expenditure Account reflects the actual income attributable to the council during the year, and the difference between this and the precepts is transferred to the Collection fund adjustment account. The balance on the Collection fund adjustment account is taken into account when setting the level of future years' council tax and business rates precepts.

21 Exceptional items and prior period adjustments

The council has not accounted for any exceptional or prior period items in 2015/16.

22 **Excepted items**

There are certain topics that councils have to report on but that do not affect Leeds City Council's accounts for 2015/16. This note lists those topics.

a Discontinued operations: no significant operations or services were discontinued in 2015/16.

b Agency arrangements: under a number of statutory powers, the council is permitted to undertake work on behalf of other bodies. However, the council currently has no material agency arrangements in place.

c Transport Act 2000: under the provisions of the Transport Act 2000, details of any scheme of road user charging or work place parking levy should be notified. For 2015/16, no such activities have been entered into by Leeds City Council.

23 **The Council's Group**

Following the closure of its Housing ALMO companies during 2013/14, the council no longer has a material group and therefore does not produce group accounts.

The council has two remaining subsidiary charitable companies, Leeds Grand Theatre Ltd and Craft Centre and Design Gallery Ltd. It also has four associates (Belle Isle Tenant Management Organisation Ltd, Green Leeds Ltd, The Leeds Groundwork Trust and Leeds Apprenticeship Training Agency Ltd) and one joint venture (NPS Leeds Ltd).

From 2014/15 the Code has required local authority maintained schools to be treated as part of a local authority's group, but to be included within its single entity financial statements.

The property assets which are included in the council's balance sheet on the basis that they are deemed to be assets of school governing bodies are not available to the council for any other purpose. The value of such assets at 31st March 2016 was £411m (£305m at 31st March 2015). Reserves recognised on this basis are restricted by statutory arrangements. The value of these reserves is given in explanatory note 12.

24 **Judgements made by management**

In preparing its accounts, the council is required to make judgements in applying its accounting policies. The following judgements made have a significant effect on the amounts recognised in the financial statements:

a Private finance initiative (PFI) schemes

The council has evaluated its thirteen current PFI schemes under the requirements of the Code and concluded that all but one of the assets provided under them should be recognised on its balance sheet as its assets. Please see note 9 above for details of this judgement.

b Inclusion in the investment properties classification

The council has reviewed its portfolio of tangible fixed assets in order to determine which should be classified as investment properties. In the case of those properties for which it receives rental income, the council has had to judge whether its primary reason for holding the property is to generate income, or whether its main purpose is to achieve a policy objective such as economic development. The council has concluded that its portfolios of markets, industrial units, farms and shops located within housing estates are held to achieve policy objectives and has therefore excluded these from the investment properties classification.

c Equal pay liabilities

In accounting for liabilities relating to equal pay, the council has had to judge which of the possible future liabilities it faces are sufficiently certain to be accounted for as a provision and which should be contingent liabilities. The council has taken the view that where it has received claims from individuals covering circumstances which it has accepted may give rise to a valid claim, a provision for the estimated settlement value should be raised. Where the council is aware that there is a potential for future claims but none have yet been received, it has judged these possible liabilities to be sufficiently uncertain and unquantifiable to be classified as contingent liabilities.

25 Assumptions and major sources of estimation uncertainty

The Code requires authorities to disclose those estimates and assumptions which it has made in the preparation of its accounts for which there is the potential for a material adjustment within the next financial year.

a Net pensions liabilities

In arriving at the figures for net liabilities relating to its obligations under defined benefit pension schemes, the council has to make assumptions about future events over a long period of time. Note 8 details the assumptions made, and the impact on the net liability of changes in the key assumptions. During 2015/16, the council accounted for a decrease of £37m in its pensions liabilities as a result of estimates being corrected as a result of experience, and a decrease of £147m due to the updating of assumptions.

b Values of fixed assets

The council carries out a 5 year rolling programme to revalue its fixed assets. For those assets held at current value and not revalued in a particular year, the council uses appropriate indices to apply an estimated revaluation for the year. For 2015/16 it has applied indexation of 2% to assets valued at depreciated replacement cost, resulting in a total increase in carrying values of £20.8m.

c Insurance claims

In accounting for potential liabilities arising from insurance claims, the authority has had to estimate the level of provision which is required for the overall body of claims it has received, many of which are individually of low value. Individual claims with a potentially large settlement value are reviewed separately and the appropriate provision is determined for each. The remaining claims are valued individually and then considered in groups of similar types of claim, using historic data on the council's past settlement rates and the likely timescales for settlement. The probable overall settlement value of the claims is calculated using the historic data and a provision is raised for this amount, discounted where appropriate.

d Appeals against business rates valuations

In estimating the level of provision required in its Collection Fund for losses in business rates income due to appeals against ratings valuations, the authority has had to make assumptions on the proportion of claims which will be successful and the average percentage by which valuations will be reduced for those claims which do succeed. The assumptions used are based on data taken from the outcome of resolved claims.

26 Events after the reporting date

The Statement of Accounts was approved as presenting a true and fair view by the Deputy Chief Executive on 16th September 2016. Events happening between the balance sheet date and the date the accounts were authorised for issue have been considered under the council's accounting policy for events after the reporting date (please see accounting policy number 23).

The following events happening after the balance sheet date are sufficiently material to require disclosure, but do not affect conditions reported at the balance sheet date :

- Twelve schools have agreed transfers to academy status, representing a disposal for nil consideration of assets with an estimated value of £62.5m at 31st March 2016.

27 New accounting standards not yet implemented

The Code requires local authorities to disclose the likely impact of any new accounting standards which have been issued as at the balance sheet date but which will not apply to local authorities' accounts until subsequent financial years.

The 2016/17 Code will introduce changes to the format of the Comprehensive Income and Expenditure Account and to the Movement in Reserves Statement, but these will not affect the information included in the statements. There are also a number of minor accounting changes, but none is expected to have a significant impact on the authority's 2015/16 figures.

The 2016/17 Code will also introduce current value accounting for the highways network asset, but this will apply prospectively from 1st April 2016, and thus no restatement of the 2015/16 accounts will be required.

The Housing Revenue Income and Expenditure Account

The Housing Revenue Account reflects a statutory obligation to account separately for local authority housing provision. The Housing Revenue Income and Expenditure Account shows the major elements of Housing Revenue Account expenditure and how they are met from rents, subsidy and other income. This income and expenditure account does not reflect all of the transactions required by statute to be charged or credited to the Housing Revenue Account for the year. The Statement of Movement on the Housing Revenue Account Balance gives details of the additional transactions which are required by statute.

2014/15	£000s	*2015/16*		*notes*
	Income			
(211,950)	Dwelling rents	(217,954)		
(3,016)	Non-dwelling rent	(2,939)		
(9,374)	Charges for services and facilities	(9,505)		
(21,385)	HRA government grant support	(21,385)		
	Contributions towards expenditure	-		
(245,725)			(251,783)	
	Expenditure			
66,303	Supervision and management	71,250		
49,849	Repairs and maintenance	54,530		
3,974	Rents, rates, taxes and other charges	3,472		
32,187	Depreciation and impairments of non-current assets	134,361		H1.1
1,837	Provision for doubtful debts	1,630		
28	Revenue Expenditure Funded from Capital under Statute	175		H1.2
154,178			265,418	
(91,547)	Net cost of HRA services as in the Income and Expenditure Account		13,635	
1,548	HRA share of Corporate and Democratic Core		1,548	
(89,999)	Net cost of HRA services		15,183	
	HRA share of operating income and expenditure included in the authority's Income and Expenditure Account			
(2,525)	(Gain) or loss on disposal of non current assets		(6,440)	
36,940	Interest payable and similar charges		39,926	H2.1
1,938	Interest on the net pension liability		1,467	
(70)	Interest and investment income		(18)	
(3,072)	Capital grants and contributions		(3,311)	
(56,788)	(Surplus) or deficit for year on HRA services		46,807	

Statement of Movement on the Housing Revenue Account Reserve

This statement gives details of the additional transactions which fall outside the HRA income and expenditure account but must be taken into account in order to determine the surplus or deficit for the year on the HRA Reserve, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

2014/15	£000s	*2015/16*		*notes*
	Increase or decrease in the HRA reserve comprising:			
(56,788)	(Surplus) or deficit on the HRA Income and Expenditure Account		46,807	
	Adjustments between accounting basis and funding basis under the HRA legislative framework			
(2,396)	Difference between amortisation of premiums and discounts under accounting standards and in accordance with statute	(2,379)		H2.2
5,876	Impairment of non current assets	(93,510)		H1.1
(28)	Write-off revenue expenditure funded from capital under statute	(175)		H1.2
(2,740)	HRA share of contributions to / (from) the Pension Reserve	(2,611)		
-	Capital expenditure funded by the HRA	502		H5.1
3,000	HRA voluntary provision for the repayment of principle	2,116		
17,977	Transfer to / (from) MRR	28,889		H6
3,072	Transfer to / (from) capital grants unapplied	3,311		
11,352	Difference between accounting regulation and Statute	26,870		
2,525	Net gain / (loss) on sale of non current assets	6,440		
38,638			(30,547)	
(18,150)	(Increase) / decrease in Housing Revenue Account Balance		16,260	
36,229	Housing Revenue Account Reserve balance brought forward		54,379	
18,150	Increase / (decrease) for the year		(16,260)	H3
54,379	Housing Revenue Account Reserve balance carried forward		38,119	

Explanatory notes to the Housing Revenue Account

H1 Charges for HRA use of assets

H1.1 Depreciation and impairment

The HRA Income and Expenditure Account is charged with depreciation and impairment in order to reflect the full cost of housing at the net cost of service level. For 2015/16 the breakdown of these charges was £40.4m depreciation and £94.0m impairment.

However, within the Statement of Movement on the HRA Reserve a number of adjustments are made in accordance with statute. For dwellings, the depreciation charge is reversed and replaced with the annual amount deemed to be needed in order to carry out major repair work to maintain the properties. This amount is transferred to the Major Repairs Reserve and used to fund capital expenditure (see note H6 below). Impairment charges for dwellings are also reversed within the Statement of Movement on the HRA Reserve. However, depreciation and impairment charges for non-dwellings are not reversed, but remain as a bottom line charge to the HRA reserve.

H1.2 Revenue expenditure funded from capital under statute

The amount of revenue expenditure funded from capital under statute in 2015/16 is £175k. The charges relate mainly to small grants for local community safety projects.

H2 Charges relating to the finance costs of borrowing for HRA capital expenditure

H2.1 Interest

Under the requirements of the self-financing regime for the HRA, the council’s long term loans have been individually allocated between the General Fund and the HRA. The HRA is therefore charged with the actual interest cost on its long term borrowing, plus a proportion of the council’s short term interest costs if the HRA has been a net borrower from the General Fund during the year. The method of apportioning the HRA’s share of total short term interest costs complies with general accounting practice, and thus the amount charged to the HRA Income and Expenditure Account is the statutory charge.

H2.2 Premiums and discounts on premature repayment of borrowing

In accordance with the Code, the HRA Income and Expenditure account receives a debit or credit reflecting any premiums or discounts arising on repayment of its long term loans during the year. However, statute specifies that premiums and discounts attributable to the HRA should be amortised over a number of years to the ringfenced HRA Reserve. The Statement of Movement on the HRA Reserve therefore includes an adjustment reflecting the difference between the accounting charge and the amortisation charge. In 2015/16, the statutory amortisation charge for premiums and discounts was a net discount of £2,379k (£2,396k net discount in 2014/15).

H3 HRA revenue reserves

As there is a statutory requirement to account for the Housing Revenue Account separately from the rest of Leeds City Council, the accumulated HRA revenue reserve is also recognised separately. Given the significance of recent developments, it has been thought prudent to maintain a higher reserve than in previous years and to identify elements within it for specific purposes.

HRA reserves

£000s	*01/04/2015*	*net movements*	*31/03/2016*	*notes*
General reserve	7,033	295	7,328	
Swarcliffe PFI	12,421	526	12,947	i
Environmental works	50	(24)	26	ii
Early Leavers Initiative	-	522	522	iii
Holdsforth Place - land purchase	64	-	64	iv
Insurance Claims to be Incurred	386	-	386	v
Welfare Reform	3,303	(1,303)	2,000	vi
Little London, Beeston Hill & Holbeck PFI	23,441	(15,810)	7,631	vii
Environmental Works	3,006	(433)	2,573	viii
Housing Advisory Panels (HAPs)	587	(33)	554	ix
Sheltered Works	4,088	-	4,088	x
	54,379	(16,260)	38,119	

i Swarcliffe Private Finance Initiative contract.

ii Environmental works in the Swarcliffe PFI area.

iii Funds to support the Early Leavers' Initiative.

iv To fund the purchase of land at Holdsforth Place.

v To fund any future large insurance claims not within the scope of existing cover.

vi To fund future pressures associated with the Government's Welfare Reform Bill.

vii To support affordability over the 20 year term of the Little London, Beeston and Holbeck PFI contract.

viii To fund environmental improvements on housing estates.

ix To fund projects identified by Housing Advisory Panels (HAPs)

x To support improvements and enhancements to the sheltered housing stock

H4 **HRA assets**

H4.1 **Fixed assets**

This note identifies the total balance sheet value of land, houses and other property within the HRA and analyses the movement in the balance sheet value during the year.

HRA fixed asset movements

Fixed assets £000s	*Council dwellings*	*Other land & buildings*	*Vehicles, plant, eqpt*	*Investment Property*	*Assets held for Sale*	*Assets under construction*	*Total fixed assets*
Cost or valuation	1,423,509	43,898	50,074	2,881	16,520	85,191	1,622,073
Accumulated depreciation and impairment	(60,335)	(7,096)	(32,947)	-	-	-	(100,378)
Balance sheet value as at 1 April 2015	1,363,174	36,802	17,127	2,881	16,520	85,191	1,521,695
Depreciation	(30,611)	(4,515)	(5,270)				(40,396)
Additions	174,721	333	-			(15,998)	159,056
Donations							-
Impairments (CI&ES)	(797)						(797)
Impairments (revaluation reserve)	(13)						(13)
Revaluations (CI&ES)	(92,713)	(188)		(306)	-		(93,207)
Revaluations (revaluation reserve)	(6,984)	3,763					(3,221)
Disposals	(4,156)	-		(12)	(8,486)		(12,654)
Changes in classification	(14,602)	(2,200)		(160)	19,481		2,519
Cost or valuation	1,478,965	45,606	50,074	2,403	27,515	69,193	1,673,756
Accumulated depreciation and impairment	(90,946)	(11,611)	(38,217)	-	-	-	(140,774)
Balance sheet value as at 31 March 2016	1,388,019	33,995	11,857	2,403	27,515	69,193	1,532,982

H4.2 **Vacant possession values**

In accordance with government guidance, council house valuations have been reduced by a regional adjustment factor in recognition of their status as social housing. This adjustment factor is 31% in 2015/16 (31% in 2014/15). As a consequence the council recognises council dwellings at a value of £1,388m on the balance sheet. At vacant possession the same dwellings would have a value of £4,551m therefore recognising an economic cost to the government of providing council housing at less than open market rents of £3,163m.

H5 **HRA capital accounting**

H5.1 **Capital expenditure and funding**

The following tables identify the total capital expenditure on land, houses and other assets within the HRA during the financial year, and break it down according to the various funding sources:

HRA capital expenditure

2014/15	£000s	2015/16
120,559	Fixed Assets	158,955
-	Long term debtors	-
28	Revenue expenditure funded from capital under statute	175
120,587		159,130

HRA capital funding

2014/15	£000s	2015/16
54,716	Major Repairs Reserve	87,885
-	Revenue contributions	502
55,421	PFI Deferred Liabilities	60,670
3,071	Grants and contributions	3,311
7,379	Capital receipts	6,762
120,587		159,130

H5.2 Capital receipts

The Local Government Act 2003 stipulates that income from the disposal of HRA assets must be split into usable and reserved elements. The reserved element is paid over to the national pool (£5.9m in 2015/16) and the usable element can be used to fund capital expenditure.

The table below identifies HRA capital receipts from the disposal of assets:

Capital receipts

2014/15	£000s	2015/16
16,282	Council houses	17,593
131	Land	361
538	Other property	1,140
16,951		19,094

H6 Major Repairs Reserve

The Accounts and Audit Regulations 2003 require local authorities to maintain a Major Repairs Reserve. The main credit to the reserve is an amount equivalent to the total depreciation charges for all HRA assets. Statute allows any difference between the depreciation credit on the reserve and a specified amount deemed necessary for carrying out major repairs for the year to be transferred back to the HRA. Authorities are able to charge capital expenditure directly to the reserve, and can also use it for making a voluntary set aside to repay debt. The following table shows the movement on the Major Repairs Reserve for the financial year:

Major Repairs Reserve

2014/15	£000s	2015/16	
48,891	1 April		50,365
38,213	Statutory transfer to the reserve		40,395
(54,716)	Capital expenditure charged to the reserve	(87,885)	
-	Voluntary set-aside charged to the reserve	-	
17,977	Transfer to/(from) the reserve	28,889	
(36,739)			(58,996)
50,365	31 March		31,764

H7 Excepted items

There are certain topics that councils have to report on but that do not affect Leeds City Council's Housing Revenue Account for 2015/16. This note schedules those topics.

a Housing repairs account: local authorities have the option to operate a separate housing repairs account for recording income and expenditure on HRA repairs and maintenance. The council has decided not to operate such an account, with actual repairs and maintenance being charged directly to the HRA.

b Directions by the Secretary of State: the Secretary of State has not directed any sums to be debited or credited to the council's HRA.

c Exceptional items: there are no exceptional items of income or expenditure which need to be disclosed to give a fair presentation of the accounts.

The Collection Fund

This account reflects the statutory requirement for billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates.

2014/15	Summary income and expenditure account £000s	*2015/16*		*notes*
	Income			
(288,826)	Council tax	(300,718)		
181	Council tax benefits	299		C2
1	Transitional relief	1		
(288,644)			(300,418)	
(359,855)	Business rates	(345,745)		
3,920	Transitional protection payments	4,890		
(355,935)			(340,855)	
(644,579)			(641,273)	
	Expenditure			
	Council Tax - payments to precepting authorities:			
246,580	Leeds City Council	253,471		
29,557	West Yorkshire Police Authority	30,380		
12,278	West Yorkshire Fire and Civil Defence Authority	12,618		
288,415			296,469	
2,889	Council tax - provision for uncollectable amounts and write-offs		3,004	
	Business rates - payments to precepting bodies:			
186,373	Central Government share	183,890		
183,231	Leeds City Council	180,682		
3,732	West Yorkshire Fire and Civil Defence Authority	3,682		
1,235	Costs of collection	1,242		
374,571			369,496	
	Business rates - movements on provisions:			
40,967	Provisions raised for appeals against valuations	11,444		
(22,589)	Amounts charged to the provision for valuation appeals	(29,686)		
4,366	Movement on provision for uncollectable amounts and write-offs	3,861		
22,744			(14,381)	
44,040	(Surplus) / deficit		13,315	C5

2014/15	Collection Fund balances £000s	*2015/16*	
(13,587)	1 April	(57,627)	
(44,040)	Surplus / (deficit) for the year	(13,315)	C5
(57,627)	31 March	(70,942)	

Explanatory notes to the Collection Fund accounts

These notes are intended to explain figures in the Collection Fund Summary Income and Expenditure Account and the Collection Fund Balances statement.

C1 Council tax base

For 2015/16 there were an estimated 343,130 residential properties in Leeds which were placed in one of eight valuation bands depending upon their capital value by the Listing Officer of the government's Valuation Office Agency. The totals for each band are converted by use of appropriate multipliers and expressed in terms of a number of Band D properties to give a tax base. In 2015/16 the tax base for Leeds was 213,815 properties and this was used to calculate the Band D council tax of £1,368.29, sufficient to generate the income required to cover the net expenditure of the three authorities that precept on the Collection Fund. The table below shows the number of properties in each band and the number of Band D equivalent properties (the tax base).

Council tax base

Band	*number of properties in the band*	*less exempt properties*	*chargeable dwellings*	*adjusted chargeable dwellings* (i)	*proportion of Band D council tax*	*Band D equivalent dwellings*
A (ii)	134,853	(5,755)	129,098	75,713	6 / 9	50,448
B	73,136	(4,857)	68,280	53,419	7 / 9	41,547
C	65,815	(2,153)	63,661	54,754	8 / 9	48,671
D	32,697	(1,063)	31,634	28,587	1	28,587
E	19,906	(362)	19,544	18,234	11 / 9	22,286
F	9,515	(90)	9,425	8,910	13 / 9	12,870
G	6,584	(58)	6,526	6,236	15 / 9	10,393
H	624	(11)	613	585	18 / 9	1,171
	343,130	(14,349)	328,781	246,438		215,973
Allowance for non-collection						(2,159)
Defence-exempt properties						1
Base for calculating Leeds City Council 2015/16 council tax						213,815

i Adjustments for disabled relief, single person discounts, empty homes premium, and council tax support scheme etc.

ii Includes dwellings that pay 5/9 of Band D by virtue of adjustments for disabled relief.

C2 Council tax benefits

From 2013/14 Council Tax benefit has been localised, with each authority required to introduce its own scheme of discounts for taxpayers who were previously entitled to council tax benefit. This change is reflected as a reduction in the level of council tax income. Each precepting authority receives a fixed level of grant to its General Fund to compensate it for the resulting reduction in its council tax precept.

The figures shown in the Collection Fund for Council tax benefits for 2014/15 and 2015/16 relate to retrospective adjustments to previous years' benefit entitlement, where changes in circumstances have subsequently been identified.

C3 Council tax used to support expenditure on services

The following table analyses council tax payments distributed from the collection fund.

2014/15	£000s	*2015/16*	
	Leeds City Council		
244,151	Annual precept	251,443	
2,429	Payment of council tax surplus	2,028	
246,580			253,471
	West Yorkshire Police Authority		
29,266	Annual precept	30,137	
291	Payment of council tax surplus	243	
29,557			30,380
	West Yorkshire Fire and Civil Defence Authority		
12,155	Annual precept	12,517	
123	Payment of council tax surplus	101	
12,278			12,618
288,415			296,469

Surpluses or deficits on the council tax account are transferred to the above three authorities in proportion to their demands on the fund. The surpluses or deficits are used in future years to adjust the level of council tax.

C4 Business rates tax base

The total rateable value for non-domestic properties within the authority at 31st March 2016 was £915,385k (£922,191k at 31st March 2015), and the national business rate multiplier for the year was set by the government at 49.3p in the pound for 2015/16 (48.2p in the pound for 2014/15).

C5 Analysis of Collection Fund balances

The following table analyses the Collection Fund balances between amounts attributable to council tax and amounts attributable to business rates.

2014/15 Total	£000s	*2015/16 Council Tax*	*Business Rates*	*Total*
(13,587)	1 April	1,642	(59,269)	(57,627)
(44,040)	Surplus / (deficit) for the year	945	(14,260)	(13,315)
(57,627)	31 March	2,587	(73,529)	(70,942)

As part of the scheme for local business rates retention from 2013/14, the government introduced regulations to allow local authorities to spread the impact of appeals against rateable values which related to periods before 1st April 2013 over a 5 year period. The effect of these regulations is that the relevant appeal costs are retained within the Collection Fund balance until the year in which they are required to be taken into account in the annual precepts. The deficit attributable to business rates shown above included £15.5m of costs which have been deferred under these regulations.

Report author: Stephen Blackburn
Tel: 0113 37 84571

Report of Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 16th September 2016

Subject: Local Transparency Code

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☒ No
Is the decision eligible for Call-In?	☐ Yes	☒ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ No

Summary of main issues

1. The Local Government Transparency Code 2015 is a mandatory Code and non-compliance could result in the authority being investigated by the Information Commissioner's Office or being subject to a judicial review and leading to reputational damage.

2. Affected services need to be aware of the requirements of the Code and their responsibilities in ensuring data and information is made available in the required formats and by the due deadlines.

3. The transparency agenda is high on the government's agenda and it is likely that amendments to the Code will be made on an ongoing basis. The council therefore needs to be in a position to react to any future changes.

Recommendations

4. Corporate Governance and Audit Committee is asked to consider the contents of this report and the assurance provided in respect of the council's substantial compliance with the Code and in providing access to published data and information.

1 Purpose of this report

1.1 To provide Corporate Governance and Audit Committee with background information about the Local Government Transparency Code and how it impacts on the council.

1.2 To provide members with assurance that the council is substantially compliant with the Code and can respond promptly to any future changes.

1.3 To provide clarification as to how members of the public can access data and information highlighted in the Code.

2 Background information

2.1 The Department for Communities and Local Government (DCLG) introduced the Code of Recommended Practice for Local Authorities on Data Transparency in September 2011 with the aim of encouraging local authorities to become increasingly open and transparent. This first version listed ten pieces of information which included datasets such as councillor expenses and allowances, election results and council expenditure over £500.

2.2 Most councils began publishing their spending above £500 however the publication of other datasets failed to gain traction. In September 2013, government carried out some consultation into making the Code mandatory and reviewing which datasets should be included.

2.3 At the time of consultation, Leeds City Council sought views from a wide range of individuals and responded separately to the Local Government Association (LGA) and DCLG. The outcome of the consultation stated that the Code was to become mandatory by October 2014 and that some changes were to be made to which datasets were required, increasing the number to fourteen.

2.4 The view by officers at the council throughout the consultation period was that the Code was likely to become mandatory and that being proactive meant that focus could then be diverted to other areas, e.g. publishing datasets which could reduce the number of Freedom of Information (FOI) requests. This proactive action meant that when a further amendment was made in April 2015 to include social housing asset values, the council was quick to respond and published the required dataset by the deadline of September 2015.

2.5 Leeds City Council has worked towards being as compliant as possible when publishing data and in some cases doing over and above what the Code requires. Appendix 1 outlines in greater detail what the council is publishing. Sections marked with an asterisk highlight those areas where the council is exceeding the requirements of the Code.

2.6 Officers working in the Information Governance (IG) Service provide guidance, support and monitoring to those business areas required to publish relevant data. Responsibility is assigned to individuals who publish and officers in the IG Service regularly monitor compliance, and ensure checks and balances are in place to provide continued compliance.

2.7 The council has a developed a good working relationship with both the LGA and DCLG and has contributed to conversations on how best to implement the Code. Indeed, all datasets have been published in the formats (schemas) published by the LGA which the council provided feedback on. The council continues to influence the national agenda on Open Data and the Local Government Transparency Code.

2.8 In addition to working on the Code, the council has also published datasets on public toilets, planning applications and licensed premises as part of an LGA scheme and has more recently published data on brownfield sites as part of a DCLG scheme. When added to other publications on the Data Mill, Leeds City Council is now publishing over 200 datasets and is seen as a UK leader in this area.

3 Main issues

3.1 In some areas the council is publishing more than is required, and in others is substantially compliant with the necessary mandatory elements. There are some specific reasons why we cannot claim to be 100% compliant;

- To avoid public confusion with information being released at different times and to allow time for auditing of council accounts, annual financial datasets (senior officer salaries, payments to the 3rd sector and parking income and expenditure) are published in September in line with the publication of council's Statement of Accounts and Parking Annual Report rather than in April as required.

- The senior officer salaries dataset should include details of officers whose salary is greater than £50,000 FTE. The council exceeds this requirement and lists all staff who have earned beyond the threshold, (e.g. extra honorarium payments). There is a requirement that responsibilities, budgets and staffing be listed for each individual. Publication of this level of detail is currently not possible as the information is not stored on council systems in a way which makes it cost effective to publish. Collection of the data would currently mean a manual and labour intensive exercise which could lead to inaccuracies. Responsibilities for the most senior council officers are however listed.

3.2 All the datasets listed in the Code are published on Data Mill North (formerly Leeds Data Mill). The website is highly publicised as *the* place for council data. Furthermore, its scope has now widened and is being promoted as the main open data repository for the North of England. All datasets listed on the website are categorised under the term 'Transparency' to aid searching and all are listed on the government's national data website, data.gov.uk.

3.3 All published council data and information is also listed on its 'Publication Scheme', which is a requirement of the Freedom of Information Act. This directory can be found in the 'Your Council' section of leeds.gov.uk in the 'Council data and information' area. Anything listed on here also means that FOI requests are automatically exempted.

3.4 To further promote the council's work on this agenda, a dedicated webpage focusing on the Code has been created and can be easily found by searching 'Transparency Code Leeds' on leeds.gov.uk or through a variety of search engine websites (e.g. Google, Bing and Yahoo).

4 Corporate considerations

4.1 Consultation and Engagement

4.1.1 Consultation at various stages of implementation of the Code was conducted across a broad range of stakeholders including those services and officers directly affected by it. Additionally, key officers in legal services, procurement and finance were also consulted.

4.1.2 A report to Corporate Governance and Audit Committee was submitted on 9th April 2014 and progress subsequently reported through the Annual Information Governance report.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 The Code states that presentation of the data "should be helpful and accessible to local people and other interested persons". Data and information which the council publishes are all viewable on Data Mill North or Leeds.gov.uk and can be downloaded in a variety of formats. Furthermore, if a request is made for other digital or non-digital formats such as PDF, large print or braille, every effort will be made to assist. Contact Centre staff and officers working on FOI requests have processes in place to respond to these types of customer enquiries. Requests in respect of the Code would be managed through these existing processes.

4.3 Council policies and City Priorities

4.3.1 Transparency is a key government priority and the Local Government Transparency Code forms part of that agenda. Additionally, one of the council's values is in being 'open, honest and trusted' and Executive Board approved the report 'Open Data: Realising the potential of an untapped resource' in November 2015 which recommended the council work towards becoming an 'open by default' organisation.

4.4 Resources and value for money

4.4.1 Capacity within directorates to publish the required data has been made available from existing resources and is now embedded. Monitoring is overseen by officers working in the Information Governance Service to ensure datasets are published on time and in the required formats.

4.4.2 It takes an average of 3 hours to process an FOI request. In 2014/15, the council received 1986 requests. In 2015/16 this reduced to 1619 requests however this still equates to an average of 4857 officer hours or 131 FTE weeks. Whilst it cannot be proven that the reduction is entirely down to the publication of data, some areas such as business rates, housing and fleet services have seen significant reductions in requests being made. Increasing the number of datasets made available to the public not only contributes to the transparency agenda but improves efficiency.

4.5 Legal Implications, Access to Information and Call In

4.5.1 There are no legal implications and no restrictions on access to information contained in this report.

4.6 Risk Management

4.6.1 Not complying with the Code could result in the authority being investigated by the Information Commissioner's Office or being subject to a judicial review and leading to reputational damage. It should be noted however that publishing data and information contained in the Code can assist in reducing the number of FOI requests which the council receives.

4.6.2 Whilst there are specific individuals who are responsible for the publication of datasets, this requirements of this agenda are recognised by other officers within service areas. Additionally, compliance is monitored by officers unconnected with publication. Embedding various responsibilities in this way will minimise the risk of publication not taking place.

5 Conclusions

5.1 A report was submitted to Corporate Governance and Audit Committee on 9th April 2014 outlining what the council's responsibilities were in complying with the Code. Since that report, the council has been substantially compliant in publishing the necessary data and information.

5.2 Processes are now embedded to ensure continued compliance:

5.2.1 Monitoring of datasets has been incorporated into the wider open data monitoring work. This is managed by information governance officers who check that datasets are updated on time and in the required formats. Individuals are chased where necessary.

5.2.2 Named individuals in service areas have been allocated responsibility for publishing datasets and are aware of the support on offer from information governance officers.

5.2.3 Information governance officers are in regular contact with representatives at the LGA and are informed of any potential future changes.

6 Recommendation

6.1 Corporate Governance and Audit Committee is asked to consider the contents of this report and the assurance provided in respect of the council's substantial compliance with the Code and in providing access to published data and information.

7 Background documents[1]

[1] The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.

APPENDIX 1: INFORMATION AND DATASETS LISTED IN THE LOCAL GOVERNMENT TRANSPARENCY CODE 2015

Dataset title	Directorate responsibility	Publishing service	Required publication	Actual LCC publication	Links	Page views	Notes
Expenditure exceeding £500 (inc. Government Procurement Card (GPC) transactions)	Civic Enterprise Leeds	Business support centre	Quarterly	Monthly *	Data Mill North LCC Publication Scheme	2068	**ALL** (not just above £500) council spending * (including GPC) is published monthly rather than quarterly.
Procurement information (inc. waste contracts)	Strategy and resources	Corporate Procuremt Unit	Quarterly	Bi-monthly *	Data Mill North (tenders) LCC Publication Scheme (tenders) Data Mill North (other) LCC Publication Scheme (other)	3896	The waste contract information was a one-off publication which the council had already made available through the contracts register.
Local authority land	City Development	Asset Managemt	Annually (August)	Annually (August)	Data Mill North LCC Publication Scheme	518	
Social housing asset value	Environment & Housing	Housing	Annually (April)	Annually (April)	Data Mill North LCC Publication Scheme	154	Additional detailed information provided
Grants to voluntary, community and social enterprise organisations	Strategy and Resources	Financial Managemt	Annually (April)	Annually (Sept)	Data Mill North LCC Publication Scheme	214	
Trade union facility time	Strategy and Resources	HR	Annually (April)	Annually (April)	Data Mill North LCC Publication Scheme	245	

continued…

Dataset title	Directorate responsibility	Publishing service	Required publication	Actual LCC publication	Links	Page views	Notes
Parking account	Environment & Housing	Parking Services	Annually (April)	Annually (Sept)	Data Mill North LCC Publication Scheme	133	
Parking spaces	Environment & Housing	Parking Services	Annually (April)	Annually (April?)	Data Mill North LCC Publication Scheme	237	
Senior salaries (inc. organisational chart data)	Civic Enterprise Leeds	Business Support Centre	Annually (April)	Annually (Sept)	Data Mill North LCC Publication Scheme	1086	The organisational chart information has been incorporated into this dataset as there was a high degree of overlap.
Constitution	Strategy and Resources	Democratic Services	Annually	Annually	LCC website LCC Publication Scheme	2912 #	Published as a report on leeds.gov.uk
Pay multiple	Civic Enterprise Leeds	Business Support Centre	Annually (April)	Annually (April)	Data Mill North LCC Publication Scheme	128	
Fraud	Strategy and Resources	Audit	Annually (April)	Annually (April)	Data Mill North LCC Publication Scheme	203	
					Total times transparency datasets viewed	**11794**	

KEY:

* Sections marked with an asterisk show where the council is publishing beyond the requirements of the Code.

Constitution page views are taken from leeds.gov.uk as this is not a dataset. Statistics for all other entries are taken from Data Mill North.

The 'Page views' column show how many times the Local Government Transparency Code pages have been visited between 01/04/15 - 31/03/16.

Agenda Item 10

Report author: Neil Warren
Tel: 07781 276865

Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 16th September 2016

Subject: Review of Current Business Rates Issues

Are specific electoral wards affected? If relevant, name(s) of ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☒ No
Is the decision eligible for call-In?	☐ Yes	☒ No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: Appendix number:	☐ Yes	☒ No

Summary of main issues

1. The purpose of this report is to provide a briefing on current business rates issues as requested by the Committee at its meeting of 24th June 2016. The report is intended to enable members to more fully understand the risk environment around business rates and to receive assurances that arrangements in place to manage those risks where applicable.

2. Under the current business retention scheme, local authorities retain 50% of locally collected rates, benefitting from growth but exposed to financial risks should business rates fall or fail to grow as expected.

3. Business rates are inherently volatile and the council's financial position can be adversely affected by a range of factors. As a result, the council's 2016/17 budget proposals include a net general fund cost of £12.6 million relating to business rates, which recognises a £23 million deficit position in 2015/16 due to the worsening position on business rates income, offset by forecast growth of £14.2 million in 2016/17 to recognise the continuing improvement of the economic climate of the city.

4. At 31st July 2016 there were 6,194 outstanding appeals in Leeds, requiring the Council to set aside a provision of £23.38 million, funding that could otherwise be spent on services.

5. It is important to note that the Council does not set rateable values or determine mandatory reliefs, nor does it have any role in the appeals process.

6. A revaluation of business properties will take place with effect from 1st April 2017. The rateable value of every non-domestic property is being reviewed and may go up or down. A draft 2017 ratings list will be available in early October, giving us an initial understanding of the impact for Leeds but we will not be able to do any detailed analysis until new baselines, tariffs and top-ups are confirmed later this year. The revaluation is likely to bring a fresh wave of business rate appeals, increasing the financial volatility faced by councils further.

7. By the end of this Parliament, the Government's proposals are that local authorities will be allowed to retain 100% of business rates, with an associated increase in exposure to business rate risk. Much of the design of the new system is yet to be agreed. A joint DCLG/LGA steering group has been established and two initial consultation papers have been issued by DCLG. From April 2017 the Government plans to pilot 100% retention in Greater Manchester and Liverpool City Region and Greater London.

8. The briefing note at **Appendix 1** discusses the identified issues in detail and identifies relevant assurances, which are summarized at **Annex 1**

Recommendations

9. Corporate Governance and Audit Committee are recommended to:

   - note the issues and concerns identified in this report;

   - note the assurances provided that appropriate action is being taken to mitigate the risks arising where possible.

1 Purpose of this report

1.1 At its June 2016 meeting, the Committee received a report of the Deputy Chief Executive presenting the 2015/16 Statement of Accounts prior to them being made available for public inspection.

1.2 Following discussion of the impact of business rates on the Council's financial position, the Committee requested a further report on business rates be prepared for consideration, to include:

- Background to the Council's current and future liabilities in respect of business rates retention;
- The roles, responsibilities and decision making processes of the Council and the Valuation Office;
- The risks to the Council's budget setting process associated with business rates retention;
- Current and future trends in respect of business rate income and liabilities arising from business rate valuation appeals;
- Any impact arising from the publication by the Valuation Office of the new ratings list.

1.3 Additionally, this report takes the opportunity to update the Committee on progress towards 100 per cent retention of business rates and discusses a number of related issues.

1.4 Where applicable, assurances have been identified and these are summarized in **Annex 1** of the accompanying briefing note.

2 Background information

2.1 Business rates were taken out of local authority control in 1990. Business rates revenue collected by local authorities was pooled in a single, national pot and redistributed based on an annual needs assessment through Revenue Support Grant.

2.2 In 2013/14, Government introduced the current Business Rates Retention (BRR) scheme. Local authorities now retain 50 per cent of locally collected business rates, including 50 per cent of any local growth but also bear 50 per cent of the risk if business rates fall.

2.3 Local authorities now act as both principal and agent, collecting business rates both to keep and to pass to central government. As a result they have needed to set aside funds to make provision to meet the cost of future repayments to ratepayers following successful appeals.

2.4 In October 2015 the Chancellor announced a commitment to allow local government collectively to retain 100 per cent of business rates revenue by the end of this Parliament and, to match the resulting additional tax revenues, for it to take on 'new responsibilities'. The move was confirmed in the March Budget and the Queen's Speech announced that the relevant legislative changes would be included in the Local Growth and Jobs Bill to be published in spring 2017.

2.5 The move to 100% business rates retention, accompanied by a fundamental reassessment of needs and resources, probably represents the biggest change to local government finance in a generation. It is therefore imperative that the new system is both workable and fair, and that incentives for growth are properly balanced against the needs of our most deprived communities.

3 Main issues

3.1 The issues to be considered are set out in detail in the briefing note at **Appendix 1** and its associated annexes and are briefly summarised here. For the Committee's information, this briefing note will also be submitted to the September 2016 meeting of Strategy and Resources Scrutiny Board.

The Current System

3.2 Under the current business retention scheme, local authorities retain 50% of locally collected rates, benefitting from growth but exposed to financial risks should business rates fall or fail to grow as expected. The council's financial position can be adversely affected by a range of factors, including:

- Slower than forecast growth;
- The impact of mandatory reliefs;
- Reductions in rateable value determined by the Valuation Office Agency;
- Most significantly, reductions in rateable value as a result of business rate appeals.

3.3 In 2016/17 the council's budget proposals include a net general fund cost of £12.6 million relating to business rates. This cost recognises the worsening position on business rates income in 2015/16, which resulted in a £23 million deficit, offset by forecast business rates growth of £14.2 million in 2016/17 which recognises the continuing improvement of the economic climate of the city.

3.4 At 31st July 2016 there were 6,194 outstanding appeals in Leeds, with just under 45% of the total rateable value of the city subject to at least one appeal. As a result the Council has set aside a provision of £23.38 million, funding that could otherwise be spent on services.

3.5 It is important to note that the Council does not set rateable values or determine mandatory reliefs, nor does it have any role in the appeals process.

Revaluation 2017

3.6 The revaluation of business properties planned for April 2015 was delayed by the Coalition Government but will take place with effect from 1st April 2017. Under the revaluation, the rateable value of every non-domestic property is being reviewed and rateable values may go up or down. A draft 2017 ratings list will be available in early October. Whilst this will give us an initial understanding of the impact of the new list for Leeds we will not be able to do any detailed analysis until new baselines, tariffs and top-ups are confirmed later this year.

3.7 The 2017 revaluation is likely to bring a fresh wave of business rate appeals which will increase the financial volatility faced by councils further.

100% retention of business rates

3.8 By the end of this Parliament, local authorities will be allowed to retain 100% of business rates, with an associated increase in exposure to business rate risk.

3.9 The main proposals for the new business rates system are as follows:

- Revenue Support Grant (RSG) will be phased out and local authorities will be given new responsibilities so that, overall, the switch to 100% retention will be revenue neutral;

- Individual local authorities will be given powers to reduce (but not increase) the national multiplier in their areas;

- In combined authority areas directly elected mayors will be able to add a small premium (up to 2p) to raise funds to support infrastructure projects provided they secure a majority vote of the business members of their Local Enterprise Partnership. The power will not apply to combined authorities without an elected mayor;

- The changes will be accompanied by a “fair funding review” of needs and resources so that each authority has a fair starting point;

- The current equalization arrangements through tariffs and top-ups will continue, as will some sort of safety-net arrangement to protect authorities from severe losses of income from year to year. However, safety nets will no longer be partially funded from levies on growth in tariff authorities, as levies are to be abolished.

3.10 Much of the design of the new system is yet to be agreed. A joint DCLG/LGA steering group has been established and two initial consultation papers have been issued by DCLG. A summary of the questions asked in these consultations is provided at **Annexes 6 and 7** of Appendix 1, should the Committee wish to feed in to the Council’s responses. From April 2017 the Government plans to pilot 100% retention in Greater Manchester and Liverpool City Region, and will increase the share of business rates retained in London.

3.11 Key issues to be considered are:

- The identification of appropriate additional responsibilities;

- The outcome of the Fair Funding Review and the approach to establishing needs and resources;
- How and how often the system should be reset to address divergence from the needs and resources starting position;
- How the new system will engage with the devolution agenda;
- Design issues such as how safety net arrangements should work and whether all local authorities should have powers to increase the multiplier;
- Ways of addressing local authority exposure to appeals risk.

The above issues are discussed in detail in Paragraph 5 of the briefing note at **Appendix 1**.

4 Corporate considerations

4.1 Consultation and engagement

4.1.1 This report has no direct issues requiring consultation or engagement.

4.2 Equality and diversity / cohesion and integration

4.2.1 This report has no direct equality and diversity / cohesion issues.

4.3 Council policies and best council plan

4.3.1 Achievement of the priorities identified in the Best Council Plan requires that the Council's financial resources are maximised and associated risk managed appropriately. The management of business rate risk is therefore essential to ensuring that the City can deliver on its ambitions.

4.3.2 Business rates growth is identified as a key indicator in the 2016/17 Best Council Plan Update. This report discusses how the current business rates system both incentivises growth and undermines it through the appeals process. It also identifies the limited tools at the Council's disposal to mitigate appeals risk.

4.4 Resources and value for money

4.4.1 The financial implications of the current and proposed business rates systems are discussed in this report.

4.5 Legal Implications, access to information and call In

4.5.1 There are no legal implications arising from the issues discussed in this report. The report does not require a key or major decision and is therefore not subject to call-in.

4.6 Risk management

4.6.1 The adequacy of resources to meet the Best Council Plan objectives in a sustainable way is identified as one of the Council's corporate risks. The management of business rates risk is a key element of this and is subject to regular review. Detailed monitoring arrangements are in place and key issues are highlighted to Financial Performance Group and to Executive Board monthly.

5 Conclusions

5.1 This report provides assurances that current business rates issues and the associated risks are fully understood, and that appropriate action is being taken to mitigate these risks where possible. It does however acknowledge that local authorities have limited influence in many of the areas of risk and few tools at their disposal to manage these risks.

5.2 The move to 100% business rates retention raises concern that authorities will be exposed to even greater financial risk and volatility. It is to be hoped that the joint working arrangements and consultations contributing to the design of the new system will address these concerns as fully as possible. Certainly there has been positive discussion about dealing with business rates appeals risk under 100% retention.

6 Recommendations

6.1 Corporate Governance and Audit Committee are asked to note the issues and risks identified in this report.

6.2 Further, the Committee are asked to note the assurances provided and that appropriate action is being taken to mitigate the risks arising where possible.

7 Background documents[1]

7.1 None.

[1] The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

This page is intentionally left blank

Appendix 1: Review of Current Business Rates Issues

Corporate Governance and Audit Committee
16 September 2016

Leeds CITY COUNCIL

1. Purpose of this note

1.1 At its meeting in June 2016, the Committee received a report of the Deputy Chief Executive presenting the 2015/16 Statement of Accounts prior to them being made available for public inspection.

1.2 Following discussion of the impact of business rates on the Council's financial position, the Committee requested a further report on business rates be prepared for consideration, to include:

- Background to the Council's current and future liabilities in respect of business rates retention;
- The roles, responsibilities and decision making processes of the Council and the Valuation Office;
- The risks to the Council's budget setting process associated with business rates retention;
- Current and future trends in respect of business rate income and liabilities arising from business rate valuation appeals;
- Any impact arising from the publication by the Valuation Office of the new ratings list.

1.3 Additionally, this note takes the opportunity to update the Committee on progress towards 100 per cent retention of business rates and discusses a number of related issues.

1.4 Where appropriate, assurances have been identified and these are summarized at **Annex 1** of this note.

2. Background

2.1 Business rates were taken out of local authority control in 1990 and replaced by the national non-domestic rate, although they continue to be referred to as 'business rates'. The Government set a rate, known as the 'multiplier', and revenue collected by local authorities was pooled in a single, national pot and redistributed based on an annual needs assessment through Revenue Support Grant. Under this system there was no specific incentive for local authorities to build up tax revenues through local economic growth. Business rates principles are explained at **Annex 2.**

2.2 In 2013/14, Government introduced the current Business Rates Retention (BRR) scheme. Government calculates how much funding each authority requires, with this being funded from two sources: Revenue Support Grant (RSG) and the BRR scheme. Local authorities retain 50 per cent of locally collected business rates, including 50 per cent of any growth, with 50 per cent being remitted to central government. However, local government also bears 50 per cent of the risk if business rates fall or fail to keep pace with inflation, although a safety-net mechanism is in place to limit losses.

2.3 In October 2015 the Chancellor announced a commitment to allow local government collectively to retain 100 per cent of business rates revenue by the end of this Parliament and, to match the resulting additional tax revenues, for it to take on 'new responsibilities'. Revenue Support Grant, the main central government grant for local authorities, is being phased out over the intervening period.

2.4 An initial consultation on the working of the new system is due to close on 26th September 2016 and the legislative framework is expected to be set out in the Local Growth and Jobs Bill to be published in early 2017. The Chancellor announced the move to 100 per cent business rates retention in his “Devolution Revolution” speech at the Conservative Party conference in October 2015. The move was confirmed in the March Budget and the Queen’s Speech announced that the relevant legislative changes would be included in the Local Growth and Jobs Bill to be published in spring 2017.

3. The current system: 50 per cent retention

3.1 How the current scheme impacts on the Council’s finances: the business rates deficit

3.1.1 The current business rates scheme is explained in more detail at **Annex 3**. Whilst 50 per cent retention allows local authorities to retain 50 per cent of locally collected business rates, including 50 per cent of any growth, authorities are also exposed to 50 per cent of the risk. Business rate income is inherently volatile and the Council’s financial position can be adversely affected by a range of factors. These include:

- Slower than forecast growth;
- The impact of mandatory reliefs, particularly issues regarding charitable relief and empty rates relief;
- Reductions in rateable value due to changes in local circumstances as determined by the Valuations Office Agency (VOA), for example the reductions applied to numerous retail properties in Leeds City Centre to reflect the impact of the opening of Trinity;
- Reductions in rateable value arising as a result of a successful appeal in one part of the country, where the basis for appeal applies more widely. In these circumstances the VOA instructs billing authorities to reduce rateable values of relevant properties in their area, whether or not they have appealed. One such recent decision related to purpose-built medical centres;
- But most significantly, reductions in rateable value due to appeals by ratepayers and their agents, as discussed in greater detail at paragraph 3.2.

3.1.2 Changes to large properties are a major cause of business rates volatility, particularly when a small number of properties dominate a local valuation list. For example, when a nuclear power station in Hartlepool had its rateable value reduced by 48% to correct an error in the original 2010 valuation that single change reduced their business rates income by 20% and resulted in them falling into safety-net. Leeds and others have argued that large, potentially volatile assessments should be placed in a Central List to protect vulnerable local authorities from large reductions, but some authorities argue that such properties should be retained in local lists so that they can benefit from growth if rateable values go up.

3.1.3 The role of the VOA is explained more fully in **Annex 2**, and it is important to note that the Council does not set rateable values, nor does it have any role in the appeals process, but it does have to deal with the financial impact of appeals, including the requirement to set aside funds to cover future losses. The Council is unable to make provision for income lost due to VOA decisions which are not appeals, as we cannot reasonably estimate them.

3.1.4 Local authorities are required by statute to account for council tax and business rates income in a ‘Collection Fund’, a separate accounting statement showing the amounts that each billing authority forecast it would collect and how that has been distributed. Councils recognise in their budget the amount they forecast they will collect and any actual surplus or deficit is carried forward to the following year’s budget: so a surplus in 2015/16 would increase the amount of business rates income available to spend on services in 2016/17 and vice versa. This approach is intended to give local authorities time to plan for volatility in income rather than having to respond in year.

3.1.5 In 2016/17, the council’s budget proposals include a net general fund cost of £12.6 million relating to business rates. This cost recognises the worsening position on business rates income in 2015/16, which resulted in a substantial deficit of £23 million requiring a contribution from the General Fund in

2016/17. The financial impact of the deficit is substantially offset by forecast business rates growth of £14.2 million in 2016/17 which recognises the continuing improvement of the economic climate across the city.

3.1.6 The following **assurances** are identified:

- *Business rates income is monitored in detail and reported to Financial Performance Group on a monthly basis. Financial Performance Group then highlights key issues to Executive Board;*

- *Both financial forecasting and the in-year budget are monitored through the Council's Corporate Risk process.*

3.2 Appeals risk under the current system

3.2.1 The Gross Rateable Value for the city is now estimated to be £912 million, which is less than the value prior to the opening of Trinity. Although there are now more rateable premises in the city, many have lower rateable values as a result of successful appeals or decisions by the VOA.

3.2.2 At 31st July 2016 there were 6,194 appeals outstanding in the Leeds City Council area affecting 4,500 properties. This means that rateable value of over £401million is subject to at least one appeal in Leeds, just under 45% of the total rateable value in the city. As a result the Council has had to set aside £23.38 million against future losses due to reductions in rateable value - funding that could otherwise be spent on services. Collectively, local authorities have set aside around £1.75 billion in the past three years to cover the risk of backdated appeals[1]. **Annex 4** explains the current appeals system in more detail.

3.2.3 Successful appeals are most commonly backdated to the start of the current Valuation List, i.e. 1st April 2010, greatly increasing the in year impact on local authorities. As a result of this backdating, the Council needs around £6 of rateable value growth for every £1 of rateable value lost in 2016/17 just to maintain its level of income. This is illustrated at **Annex 4.**

3.2.4 A further complication is that the process for submitting appeals is changing from 1st April 2017. The Government hopes that the new 'Check, Challenge, Appeal' process will reduce the number of long-term appeals in the system and discourage speculative appeals. However, at first sight the new procedures appear cumbersome and could make it more difficult for us to make accurate provisions for appeals.

3.2.5 The following **assurances** are identified:

- *Detailed monthly monitoring of the adequacy of appeals provisions with reference to the most recent settlement data, which is reported to Financial Performance Group;*

- *Liaison with the Council's Business Rates team to discuss issues and assist in our approach to calculating appeals provisions;*

- *Regular meetings with the VOA, which give us some forewarning of local and national issues and improve our understanding of how the appeals system is operating;*

- *The Collection Fund is audited by both Internal and External Audit, and this includes audit of the methodology used to estimate provisions for appeals;*

- *Leeds continues to discuss the current and future appeals issue with government and with local government representative bodies.*

---

[1] LGA responds to CLG Committee report on business rates, Local Government Association, 14 June 2016

4. Revaluation 2017

4.1 The revaluation of business properties planned for April 2015 was delayed by the Coalition Government but will take place with effect from 1st April 2017. Under the revaluation, the rateable value of every non-domestic property is being reviewed in the light of rental and other evidence as at 1st April 2015 (“the antecedent date”). Rateable values may go up or down depending on movements in property values, but the aim is to adjust the multiplier so that the national business rates “take” is the same before and after the revaluation. This is illustrated by the simple model at **Annex 5**. In practice, there will be a small upward adjustment to try to take account of the effect of successful appeals over the lifetime of the ratings list.

4.2 A draft 2017 ratings list will be available in early October. Whilst this will give us an initial understanding of the impact of the new list for Leeds and throughout the country we will not be able to do any detailed analysis until new baselines, tariffs and top-ups are confirmed later this year.

4.3 As has been the case in the past, the 2017 revaluation is likely to bring a fresh wave of business rate appeals which will increase the financial volatility faced by councils further.

4.4 The following **assurances** are identified:

- *Leeds has participated in discussions with DCLG to address concerns arising from the 2017 revaluation;*

- *Corporate Financial Management will carry out initial analysis of the data available in October and more detailed work once baselines, tariffs and top-ups are published;*

5. 100 per cent retention of business rates

5.1 Main proposals

5.1.1 The move to 100 per cent business rates retention, accompanied by a fundamental reassessment of needs and resources, probably represents the biggest change to local government finance in a generation. It is therefore imperative that the new system is both workable and fair, and that incentives for growth are properly balanced against the needs of our most deprived communities.

5.1.2 The main proposals for the new business rates system are as follows:

- By the end of this Parliament (now thought likely to mean 2019/20, but could be 2020/21) local authorities will be allowed to retain 100% of business rates;
- Revenue Support Grant (RSG) will be phased out and local authorities will be given new responsibilities so that, overall, the switch to 100 per cent retention will be revenue neutral;
- Individual local authorities will be given powers to reduce (but not increase) the national multiplier in their areas;
- In combined authority areas directly elected mayors will be able to add a small premium (up to 2p) to raise funds to support infrastructure projects provided they secure a majority vote of the business members of their Local Enterprise Partnership. The power will not apply to combined authorities without an elected mayor;
- The changes will be accompanied by a “fair funding review” of needs and resources so that each authority has a fair starting point;
- The current equalization arrangements through tariffs and top-ups will continue, as will some sort of safety-net arrangement to protect authorities from severe losses of income from year to year. However, safety nets will no longer be partially funded from levies on growth in tariff authorities, as levies are to be abolished.

5.2 Progress to date

5.2.1 In April 2016 a joint DCLG/LGA steering group was established to provide information and expert advice on the development of the new system, overseeing a set of technical working groups, all of which are now meeting regularly.

5.2.2 An initial consultation paper "Self-sufficient local government: 100% Business Rates Retention" was issued by DCLG on 5th July 2016 with a closing date of 26th September 2016. A further, more technical consultation is promised in the autumn.

5.2.3 Alongside the 2016/17 Local Government Finance Settlement, the Government announced the Fair Funding Review, which is intended as a thorough review of what the needs assessment formula should be under 100 per cent retention. "Fair Funding Review: Call for evidence on Needs and Redistribution" also closes on 26th September.

5.2.4 The questions asked in these two consultations are provided at **Annexes 6 and 7**, should the Committee wish to feed into the Council's responses.

5.2.5 From April 2017 the Government plans to pilot 100 per cent retention in Greater Manchester and Liverpool City Region, and will increase the share of business rates retained in London. It is intended that these pilots will provide an opportunity to test elements of the 100% scheme. The offer to pilot the approach is only open to areas that have ratified their devolution deals and have committed to elected mayors. Other areas expressing interest in pilots are Sheffield City Region and Cornwall[2].

5.2.6 The following **assurance** is identified:

- *Leeds will submit detailed responses to Government in response to these current and future consultations concerning the proposed system.*

5.3 Additional Responsibilities

5.3.1 The Government expect the move to 100 per cent retention to be fiscally neutral between central and local government. In order to achieve this, the main local government grants will be phased out and additional responsibilities devolved to local authorities to match the additional funding from business rates. The likely size of the transfer is uncertain: DCLG have suggested it could be around £8.3 billion, but this will depend on levels of economic growth between now and 2019/20 and on government policy in the intervening period. Measures in the 2016 Budget, for example, included permanently doubling Small Business Rate Relief (SBRR) and increasing thresholds, taking over 600,000 businesses out of business rates taxation and a further 250,000 out of the higher rate. As a result around a third of business ratepayers in Leeds will pay nothing at all, and will have little financial stake in local democracy.

5.3.2 In Leeds, by 2019/20, the figure to transfer could exceed £100 million, but again this will depend on local and national economic changes, and also on how tariffs and top-ups change following the reassessment of needs.

5.3.3 To date a set of guiding principles have been agreed by the DCLG/LGA steering group to shape discussions. Much of the discussion to date on transfers has focused on grants rather than identifying new responsibilities.

5.3.4 Discussions on transferring responsibilities have concentrated on Skills (including further education and careers guidance) and Welfare. The group has been very clear that it would be inappropriate to

[2] Two more 100% pilots on cards as areas set out their demands, Local Government Chronicle, 4 August 2016

take on responsibility for any nationally-set benefits such as Attendance Allowance, but this remains one of the potential devolved functions listed in the consultation document.

5.3.5 The following **assurance** is identified:

- *Leeds is participating in the discussions about additional responsibilities through SIGOMA and other representative bodies. In our response to the current consultation we intend to make clear that we do not support the transfer of Attendance Allowance or any similar nationally-set benefits.*

5.4 Needs and Resources

5.4.1 The introduction of the new business rates system is intrinsically linked to the Government's review of needs and resources. The Government states that the Fair Funding Review will address a series of important issues:

- What do we mean by relative 'need' and how should we measure it?
- What are the key factors that drive relative need?
- At what geographical level should need be assessed?
- How should resets of the needs assessment be done (discussed in paragraph 5 below)?
- How – and what – local government behaviours should be incentivised through assessment of relative needs?

5.4.2 Needs and resources were last assessed for the 2013/14 finance settlement using the complex set of relative needs indicators that had been refined over the previous decade. Although the Needs and Redistribution Group have met a number of times, they have not yet got beyond trying to identify a suitable set of indicators to be used to begin to model a new needs formula.

5.4.3 It is acknowledged that this area of work is likely to take longer than other aspects of the proposed system, and it is expected that a technical consultation on the assessment of needs will not be issued until the summer of 2018, building on the issues explored in the current call for evidence.

5.4.4 The outcome of the fair funding review will establish the funding baselines for the introduction of 100 per cent retention. There are likely to be transitional arrangements to give councils time to adjust to changes in their level of funding.

5.4.5 The following **assurances** are identified:

- *Leeds is participating in the discussions about needs and resources through SIGOMA and other representative bodies.*

- *Leeds will submit a detailed response to the current "Fair Funding Review: Call for evidence on Needs and Redistribution" consultation.*

5.5 Resets

5.5.1 Over time the relative needs and resources of authorities will diverge from the starting position, improving for some and deteriorating for others. Therefore the system needs to be reset periodically to take account of these changes in relative needs and resources. Between resets local authorities would retain any growth, but at a reset this growth could be equalized away.

5.5.2 The 100 per cent retention consultation suggests three reset options for the new scheme:
- full and frequent resets which would prioritise need, with growth lost at each reset;
- full but infrequent resets which would enable retention of growth over a longer period, however any reduction in income could affect local service delivery over an extended period;

- partial but frequent resets whereby adjustments would be made for growth and relative need frequently but to a lesser extent, retaining some incentive for growth but also taking some account of changes in relative needs.

5.5.3 The following **assurance** is identified:

- *In responding to the consultation, Leeds has expressed support for the partial reset approach. There are a number of ways to implement the partial reset option and we will be looking at the suggested approaches in detail and contributing to the wider system design process over the coming months.*

5.6 Devolution

5.6.1 The current consultation makes clear that there are a number of connections between devolution deals and the proposal for 100 per cent retained business rates. One emerging concern is that DCLG appear to be considering the possibility of devolving different responsibilities to different areas depending on whether or not there is a mayoral combined authority in place. There will be pros and cons to this; but there are fears that it could lead to a two-speed and inconsistent system, with areas with elected mayors being given greater freedoms and wider responsibilities, leaving other areas behind.

5.6.2 Indeed, the consultation document identifies some of the functions currently devolved:

- Investment funds for devolution deals
- Adult Education Budgets
- Transport Capital Grants – consolidated Transport funding including highways maintenance funding and bus service operators grant
- Local Growth Fund

and asks whether some or all of the commitments in existing or future deals could be funded through business rates under 100 per cent retention.

5.6.3 Another concern emerging from the consultation is that DCLG appear to be considering allocating resources at regional rather than local authority level, arguing that needs vary less between regions than they do between authorities within regions. Clearly this approach would rely on the relationships between authorities in a region who would then need to distribute those resources fairly and it could potentially lead to different distribution approaches throughout the country.

5.6.4 The following **assurance** is identified:

- *Work is planned with colleagues in Economic Development to further analyse need at a regional level. This analysis will help to inform our response to Government on this issue.*

5.7 The design of the new system

5.7.1 Alongside these wider considerations, some more specific aspects of system design need to be considered. These include the proposed powers to vary the multiplier, the abolition of the current levy and discussion concerning the nature of the safety net, the operation of reliefs and discounts and the increased exposure to business rates volatility and appeals risk.

5.7.2 Individual local authorities will be given powers to reduce the national multiplier in their areas. In mayoral combined authority areas only, directly elected mayors will be able to add a small premium (up to 2p) to raise funds to support infrastructure projects provided they secure a majority vote of the business members of their Local Enterprise Partnership. The Government's expectation appears to be that any reduction would apply right across an authority rather than being targeted by area or by sector, with authorities continuing to use existing local discount powers for targeted relief.

5.7.3 Local government representatives have argued strongly that billing authorities should be given powers to vary the multiplier upwards as well as downwards and to target reductions within their areas. There is also concern about the accountability of LEP business representatives to agree an infrastructure premium.

5.7.4 The Chancellor has announced that levy payments will be abolished under 100 per cent retention. This removes the rationale for business rates pools which allowed levies that would otherwise be passed to Whitehall to be retained locally, and calls into question the future of the Leeds City Region Business Rates Pool.

5.7.5 Perhaps more significantly, levies from non-pooled tariff authorities currently contribute to the funding of safety-nets for authorities that suffer reductions in their income below 7.5% of their assessed spending needs – their baseline funding. Some form of safety-net will continue to be essential under 100 per cent retention, but DCLG have made it clear that this will have to be funded from a top-slice elsewhere in the system. The level of the safety net threshold has also been questioned. Leeds has argued that it should be reduced – perhaps to 5%.

5.7.6 Local authority representatives have argued for greater discretion over the level of business rates reliefs and discounts, in particular for powers to vary the 80% mandatory discount for registered charities and to vary the period before empty rates become due. Such powers would allow local authorities to combat empty-rate avoidance schemes more effectively and to better target charity relief to where it is most needed. DCLG have listened to these arguments with some sympathy, but have pointed out that the business community and the third sector are also powerful lobbyists and are likely to oppose any significant changes.

5.7.7 The nature of the appeals risk is discussed in paragraph 3.2. Clearly there is concern that exposure to these risks could double under 100 per cent retention. DCLG do recognize this problem and have suggested that appeals that are backdated to the 1st April 2017 (the start of the new Valuation List) should be compensated for centrally under 100 per cent retention. Whilst this would remove much of the volatility for individual authorities it would be funded by a top-slice from elsewhere in the system, so that authorities that would otherwise suffer large losses through appeals would effectively be compensated by authorities with lower levels of appeals.

5.7.8 The following **assurance** is identified:

- *These design issues are discussed in the current consultation and Leeds City Council is represented on the Systems Design Group and is contributing to the other groups through Yorkshire and Humberside Treasurers, Core Cities and SIGOMA.*

Annex 1: Summary of Assurances

Para.	Issue	Assurances	Responsible
3.1	Business rates deficit	Business rates income is monitored in detail and reported to Financial Performance Group (FPG). Key issues highlighted to Executive Board.	CFM: FPG; Executive Board
		Financial forecasting and the in-year budget are monitored through the Council's Corporate Risk procedures.	Deputy Chief Executive; Cllr J. Lewis
3.2	Business rates appeals risk	Detailed monthly monitoring of the adequacy of appeals provisions, reported to Financial Performance Group	CFM; FPG
		Liaison with the Council's Business Rates team to discuss issues and assist in calculating appeals provisions	CFM; Business Rates Team
		Regular meetings with the VOA, to identify local and national issues and improve our understanding of the appeals system	
		Internal and External Audit of the Collection Fund, including audit of the methodology used to estimate provisions for appeals.	CFM
		Ongoing discussions with Government concerning the impact of appeals on local authority finances.	
4.	Impact of the 2017 revaluation	Participation in discussions with DCLG to address concerns arising.	CFM
		Analysis of initial data in October and more detailed work once baselines, tariffs and top-ups are published.	
5.2	Development of 100% retention system	Leeds will submit detailed responses to Government in response to current and future consultations.	CFM
5.3	Additional Responsibilities	Leeds is participating in the discussions about additional responsibilities. We will be clear in our response to the current consultation that we do not support the transfer of Attendance Allowance or any similar nationally-set benefits.	CFM
5.4	Needs and Resources	Leeds is participating in the discussions about needs and resources through SIGOMA and other representative bodies.	CFM
		Leeds will submit a detailed response to the current Fair Funding Review consultation.	
5.5	Resets	Leeds will be looking at the suggested approaches to resetting the system in detail and contributing to the wider system design process.	CFM
5.6	Devolution	Work with Economic Development to analyse regional need.	CFM; Economic Development
5.7	Design of the 100% retention system	Design issues are discussed in detail in the current consultation.	CFM
		Leeds is represented on the Systems Design Technical Group and contributes to other representative bodies.	CFM

Annex 2: Business rates principles

1. Business rates as a tax

1.1. Business rates are a tax on all non-domestic property except for those categories specifically exempted by statute, such as agricultural land. The ratepayer is the occupier of the property unless it is vacant, at which time empty rates become payable by the owner after a short period of exemption. Each ratepayer's basic liability to tax is determined by multiplying the rateable value of the property by the relevant business rates multiplier and there are then a series of reliefs that can reduce this basic liability depending on the property or the ratepayer's circumstances.

2. Rateable Value (RV)

2.1. The rateable value (RV) of a property broadly represents the annual rent that can be expected from a property on a given date on the open market, as assessed by the Valuation Office Agency (VOA) in accordance with legislation and case-law. Billing Authorities, like Leeds City Council, have no input into this valuation.

2.2. In general the VOA collects rental information from ratepayers in an area and inspects individual properties, using this data to arrive at valuations for each property. However for some types of property a different method has to be used because there is insufficient comparable rental information in an area, such as the "contractor's method" (a measure of the interest that would be charged on the capital required to replace the premises) or the "receipts and expenditure method" (where the VOA deem RV to be related to a measure of profits likely to be generated from the property).

3. Rating Lists

3.1. Non-domestic rateable properties fall either into a local rating list or the central rating list. There is a single local rating list for each billing authority in England and Wales, and two central rating lists, one for England and one for Wales. The majority of rateable value is contained in local rating lists (over 95 per cent across England and Wales). The total rateable value in Leeds exceeds £900 million.

3.2. Some properties are deemed by the Secretary of State to form part of a network across the country, such as utilities, telecommunications and the railway network including railway stations. These are listed on a Central List and the business rates yield from these properties is collected by the Secretary of State and paid into the Treasury's Consolidated Fund.

3.3. According to the Local Government Finance Act 2012 all business rates income received from properties on the Central List, along with all income from Central Government's share of business rates from local lists, must be redistributed to local government. In 2015-16 the amount of business rates income credited to the Government's accounts from the Central List was £1.3 billion.

4. The Multipliers

4.1. The multipliers, or poundage, are set by Government each year and there are two basic rates, the small business rates multiplier, which applies to properties with a rateable value below £18,000, and the higher national business rates multiplier for properties above £18,000. In the Budget in 2016 it was announced that the threshold of £18,000 is to be increased to £51,000 from 1st April 2017.

4.2. Each April the small business rates multiplier is increased by the retail price index although the Government has the power to limit these increases, which it did in 2014-15 and 2015-16. Billing authorities have no control over the level of the small business rates multiplier. In 2016-17 the small business rates multiplier is 48.4p.

4.3. The higher national business rates multiplier is set so that it theoretically generates sufficient extra revenue nationally to fund the small business rates relief scheme. In Leeds City Council's area this supplement generated an additional £9.89 million in 2015-16. In 2016-17 the national business rates multiplier is 49.7p.

5. Reliefs

5.1. There are various relief schemes that can reduce a ratepayer's basic liability depending on the property's or the ratepayer's circumstances. Some of these schemes are mandatory and a billing authority has no choice but to award them if they apply to a ratepayer's circumstances; others are discretionary, with the billing authority having the ability to set its own policy regarding when to award them. A list of the various reliefs is given in **Figure 2.1** below alongside their cost in the Leeds City Council area in 2015-16.

5.2. Since the introduction of the business rates retention scheme, Leeds City Council has to meet 49% of the cost of all reliefs. The exceptions are small business rates relief, where half of the cost to the authority is funded by central government, and those reliefs that have been introduced by the Government since the beginning of the business rates retention scheme in 2013-14, which are fully funded by the Government.

5.3. In recent years there has been concern about the use of rules around mandatory reliefs by ratepayers to evade or avoid taxation, especially the rules around mandatory charity relief and empty rate relief.

6. Revaluations

6.1. Revaluations of RVs are normally undertaken by the VOA every five years. New valuations are made across the country as at the date two years before those valuations come into effect. So, for example, the last revaluation became effective from 1st April 2010 but was based on valuations assessed as at 1st April 2008.

6.2. When a revaluation takes place the total tax take across the whole country must remain constant and the multiplier is adjusted to compensate for increased or reduced total RV. A revaluation does, however, redistribute national yield between areas, meaning that regions that have experienced growth in property values above the national average will pay a higher share of business rates than other areas.

6.3. The Government delayed the revaluation due to take effect from 1st April 2015 to 1st April 2017. The delay caused some opposition because the valuation date of the 2010 ratings list was just before the global financial crisis, and property values then fell in many areas of the country. The revaluation process is illustrated in a simple model at **Annex 5**.

6.4. Following a revaluation, ratepayers who experience a large increase in their RV will receive transitional relief to cushion the increase, with the relief gradually decreasing over five years. This relief is theoretically funded by restricting the gains that other ratepayers, who have experienced large falls in their RV, experience over the same five years.

7. Appeals

7.1. All ratepayers have the right to appeal to the VOA if they consider that their RV has been set too high at the time of the revaluation or if there has been "a material change of circumstance" that they consider should result in the RV of their property being reduced. Appeals can result in reductions being backdated to the point at which the valuation became effective. They can be made by a ratepayer, or their agent, at any time until a year after the next revaluation. Billing authorities have no right to present evidence at an appeal. A more detailed account of the appeals system and how it is affecting Leeds City Council's income from business rates is given at **Paragraph 3** of the briefing note.

8. The role of the billing authority

8.1. Leeds City Council, as a billing authority, has no role in setting the RV of properties in the city or setting the multipliers and therefore has no role in setting ratepayers' basic liability for business rates. It also has no role in the appeals process when an RV is challenged by the ratepayer.

8.2. A billing authority's role is limited to calculating and collecting the business rates owed by a ratepayer and deciding what rules to set about discretionary reliefs within the statutory framework. Where a ratepayer does not pay their business rates liability to the authority, it has a range of powers to recover the sums owed.

8.3. Before the business rates retention scheme councils collected business rates purely as an agent of the Government passing all the net revenue to the Department for Communities and Local Government. Since 2013-14, however, councils act as both principal and agent, collecting business rates both to keep (a 49% share) and to pass to central government and the fire authority. As a result councils have needed to set aside funds to make provision to meet the cost of future repayments to ratepayers following successful appeals.

Figure 2.1: Reliefs and their cost in Leeds

Reliefs	Max relief to be awarded	Amount awarded by Leeds City Council in 2015-16	Net cost to Leeds City Council in 2015-16	Comments
		£	£	
Mandatory Reliefs				
Mandatory Charity Relief	80%	23,824,601	11,674,054	Must be awarded to charitable organisations using non-domestic property for charitable purposes
Empty Rate Relief	100%	23,630,873	11,579,128	Must be awarded to owners of empty property for up to 3 months (6 months for industrial properties) immediately after a property becomes vacant
Small Business Rates Relief	100%	17,134,684	4,197,998	100% for properties with an RV less than £6,000 and then on a sliding scale up to an RV of £12,000. 50% of the cost reimbursed by central government.
Partially Occupied Properties	N/A	574,509	281,509	Available for distinct parts of a building that are vacant and certified by the VOA
Community Amateur Sports Clubs	80%	345,776	169,430	
Rural Rate Relief	50%	10,599	5,194	
Subtotal - Mandatory Reliefs		**65,521,042**	**32,105,311**	
Discretionary Reliefs				
Non-profit making bodies	up to 100%	423,539	207,534	Available to organisations that are not charitable but are not for profit at the billing authoritys discretion as set out in its published policy
Charitable occupation top up	top up to 100%	53,339	26,136	Available to organisations that receive the mandatory relief to top up to 100% at the billing authority's discretion as set out in its published policy
Community Amateur Sports Clubs top up	top up to 100%	50,424	24,708	Available to organisations that receive the mandatory relief to top up to 100% at the billing authority's discretion as set out in its published policy
Rural shops	up to 100%	5,620	2,754	
Small rural businesses	up to 100%	4,982	2,441	
Localism Act reliefs	up to 100%	194,147	95,132	At the billing authority's discretion reliefs can be awarded to any ratepayer in accordance with the authority's published policy if it considers it is in the interests of council taxpayers to do so
Hardship relief	up to 100%	278,162	136,299	
Subtotal - Discretionary Reliefs		**1,010,213**	**495,004**	
Government mandated reliefs				
"New Empty" properties	100%	48,068	0	Available to the owners of all new buildings that remain empty after completion for up to 18 months
"Long-term empty" properties	100%	277,639	0	Available to all ratepayers occupying premises that had been empty for more than 6 months
Retail relief	£1,500	4,452,373	0	Available to all retail premises with an RV below £50,000 up to 2015-16
Flooding relief	100%	955,395	0	Government funded reliefs introduced after the storms in winter 2015
In lieu of transitional relief	N/A	71,838	0	Normal transitional relief no longer existed after 31 March 2015, so the Government introduced a replacement relief for smaller properties
Subtotal - Government mandated reliefs		**5,805,313**	**0**	
Total reliefs awarded		**72,336,568**	**32,600,315**	

Annex 3: The Current System - 50 per cent retention

1. The current Business Rates Retention Scheme (BRR) was introduced in 2013/14.

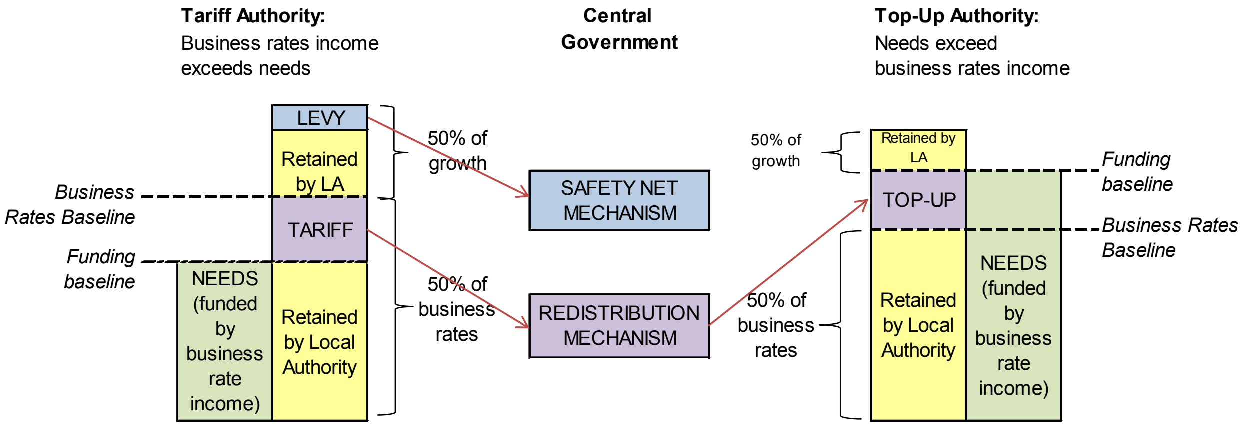
2. When the scheme was set up, a 'start-up funding assessment' (now known as the 'settlement funding assessment') calculated how much funding each authority required on the basis of an assessment of needs carried out in 2012/13. This is then the Funding Baseline for the authority. The Funding Baseline increases each year in line with the Retail Price Index (RPI) until the system is reset. The first reset was planned to take place in 2020.

3. This funding then comes from two sources: Revenue Support Grant and Business Rates Baseline Funding, also known as an authority's 'local share' of business rates. The Business Rates Baseline is the amount of business rates income the system calculates the authority will achieve. Income collected in excess of this is business rates growth.

4. The BRR scheme permits local authorities to retain 50 per cent of locally collected business rates, so 50 per cent of income collected to achieve the Business rates Baseline and 50 per cent of any business rates growth (the Local Share), with the remaining 50 percent remitted to government as the Central Share.

5. However, because authorities spending needs vary widely and do not match how much an authority will collect in business rates, there are mechanisms within the system to redistribute funding according to authorities' assessed spending needs.

Figure 3.1: The Business Rates Retention Scheme



6. This redistribution is achieved through a system of top-ups and tariffs. Tariff authorities like Leeds are expected to collect more business rates income than they need and pay a tariff to government. These tariffs are intended to meet the costs of providing top-up funding to authorities who need more funding than they can generate.

7. Tariffs and top-ups are calculated by comparing an authority's Funding Baseline with their Business Rates Baseline, so they do not take account of business rates growth.

8. Some authorities could achieve very high levels of business rates growth, whereas others might experience significant decline in business rates income, for example as a result of the closure of a major business in their area. A separate system of levies and safety net was established to adjust for such disproportionate gains and losses.

9. Authorities experiencing business rates growth will pay a levy on the 50 per cent of growth income they retain. Government use this levy income towards funding a safety net which guarantees that, each year, all local authorities will receive at least 92.5 per cent of their original baseline funding.

Business rates pools

10. The BRR scheme permits local authorities to voluntarily seek designation as a 'pool', allowing them to pool their resources under the scheme (which they could do anyway), but also ensuring that they are treated as if they were a single entity for the purposes of calculating tariffs, top-ups, levies and safety net payments.

11. The Leeds City Region business rates Pool was established in April 2013 with the aim of furthering economic development activities across the region. It has seven members:

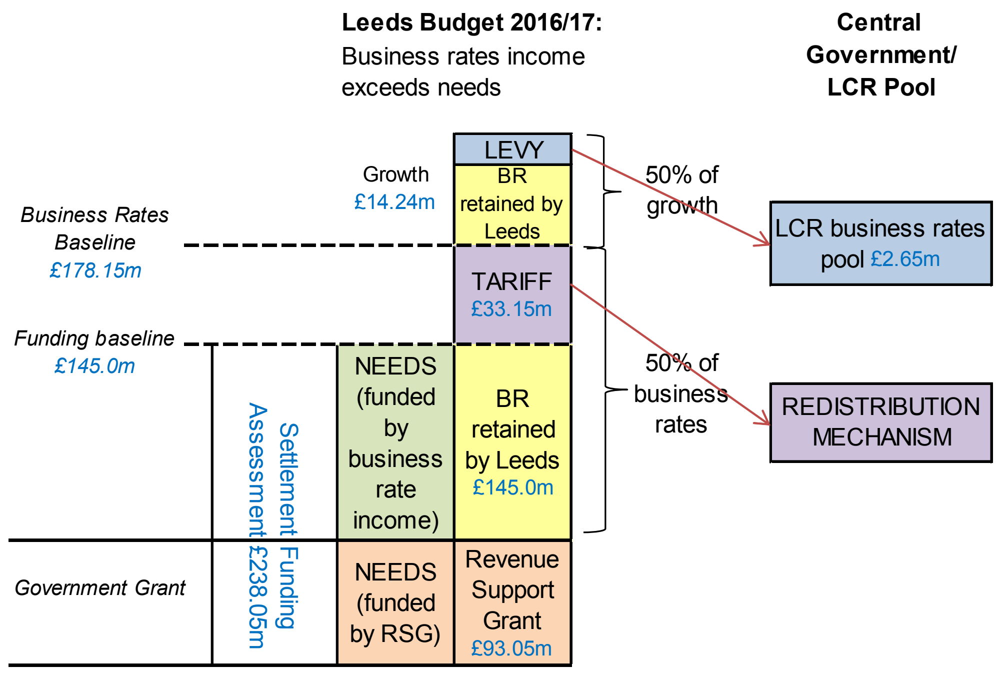
    - the City of Bradford Metropolitan District Council;
    - Calderdale Council;
    - Harrogate Borough Council;
    - Kirklees Council;
    - Leeds City Council;
    - Wakefield Council; and
    - City of York Council.

    The pool is led by a Joint Committee made up of the leaders of the seven authorities and is administered by Leeds City Council.

12. The pool is funded from levies which would otherwise be paid over to central government. Conversely, should any of the member authorities fall into safety net the pool would need to meet any necessary costs as these would not be funded by government.

13. Figure 3.2 shows the budgeted Settlement Funding Assessment for Leeds in 2016/17. The amount actually paid to the business rates pool will depend on the amount of growth achieved in the year.

Figure 3.2: Leeds Budget 2016/17 – Settlement Funding Assessment



Annex 4: Business rates appeals and their effect on Leeds City Council's business rates income

1. Appeals against rateable values

1.1 Every non-domestic property subject to business rates has a rateable value (RV) as assessed by the Valuation Office Agency (VOA) in accordance with legislation. This RV is then taxed using a percentage rate, called the multiplier, set by central government to give a ratepayer's basic liability for business rates. It is therefore in the ratepayer's interest to have as low an RV as possible.

1.2 There are often disputes between ratepayers and the VOA about the RV a property should have, and it is open to a ratepayer to enter a formal process to try and have their RV reduced. A ratepayer can enter this process at any time from when a new valuation comes into effect until a year after the next valuation comes into effect. There are two stages to the appeals process.

2. The stages of the appeals process

2.1 Officially the first stage in the formal dispute process is a proposal, when the ratepayer, or their agent, and the VOA enter into discussions about what the correct RV should be. Minimal information has to be submitted by the ratepayer to enter the proposal stage. If no agreement can be reached the ratepayer can then lodge a formal appeal with the Valuation Tribunal for England (VTE), a judicial body, for a ruling. The VTE is further supervised by the higher courts.

3. Successful appeals

3.1 The VOA has released data estimating 28.4% of appeals in Yorkshire and the Humber are successful and these can be categorised into two main types.

3.2 The first involve reductions that are backdated to the time the valuation came into effect, i.e. the beginning of the current ratings lists. Fundamentally these are correcting valuation errors made by the VOA and have been termed "tone of the list" appeals. Under the current list, these successful appeals result in backdated reductions to April 2010 with a refund stretching back seven years. Local authorities have to meet 50% of the costs of settling these backdated appeals back to 2010, despite the current business rates scheme only having being introduced in April 2013 so authorities had not shared the original benefit in full.

3.3 "Tone of the list" appeals are currently overshadowing Leeds' achievements in attracting growth to the city because of the 'gearing effect' of losses caused by backdating. If Leeds suffers a loss of £1 in RV from a successful appeal that is backdated to 1st April 2010 it must achieve approximately £6 in growth in RV to compensate for the cost. This is illustrated in **Figure 4.1** below.

3.4 The second main type of successful appeal is a "material change in circumstance" following a change in the specific building or the surrounding area. An example of this in Leeds is the reductions in RV following the opening of the Trinity shopping centre. The VOA consider that a city centre like Leeds has a certain capacity for retail and the provision of further retail space inevitably, therefore, leads to reductions in RV elsewhere in the city centre. The consequent reductions in the RV of shops in the city centre are ongoing and are backdated to April 2013 when Trinity opened, and include shops that have not lodged a formal proposal or appeal. We currently hold provisions of £3.52 million, on the advice of the VOA, for all the properties that have not been dealt with by them yet.

4. Valuation Officer Reports

4.1 Linked to reductions because of successful appeals are Valuation Officer Reports which occur when an appeal in one part of the country have a more generalised effect in other parts of the country. The VOA will issue instructions to billing authorities to reduce the RVs of the relevant properties even though these other properties have not previously lodged an appeal.

4.2 A recent example of these types of reductions followed a Court of Appeal ruling that changed the methodology of assessing the RVs of purpose-built medical centres and doctors surgeries. This has led to this kind of building experiencing reductions in their valuations of between 50% and 75% across England, backdated to 1st April 2010. Leeds currently holds provisions of £1.23 million for these properties.

4.3 Before Leeds City Council becomes aware of these generally reductions it cannot make a provision for them because they are highly volatile costs and the consequent losses are a significant cost to in-year income.

5. Reform of the appeals system

5.1 The Government has made attempts to reform information sharing between the VOA and billing authorities to help with the management of appeals risk (see para 6.2 below) but as yet this does not seems to have helped local government manage the risk they must carry.

5.2 The Government has therefore recently proposed a major reform of the appeals system itself called "Check, Challenge, Appeal" to attempt to reduce the time lag between the lodging of an appeal and its outcome. The Government hopes that this will reduce the amount of backdated repayments that have to be made and has confirmed it will be introduced from April 2017.

5.3 As the name suggests the new procedure will involve three stages and the Government intends that if an appellant or the VOA do not introduce evidence at an early stage then they shall not be allowed to do so during the final appeals stage. The three stages are: -

- **Check** – where the ratepayer can check the information held by the VOA and attempt to agree changes, or at least agree where they disagree.
- **Challenge –** where the VOA and ratepayer, or agent, will enter into formal negotiations about the correct RV. The ratepayer will have to submit a proposed alternative RV with evidence and there will be penalties for providing misleading information. The VOA will respond only to a complete 'challenge'**.**
- **Appeal –** where disagreement persists, the ratepayer will be able to submit an appeal to the VTE, but the right to submit new evidence will be restricted.

5.4 The first two stages alone will still be able to continue for up to 34 months before the formal appeal is to be lodged, and it cannot as yet be estimated what effect the new system will have on backdated appeals costs. It is interesting to note that of the 4,500 properties subject to appeal in the city of Leeds as at 31st July 2016, only 275 (just over 6%) first entered the process more than 34 months ago.

6. Appeals costs in Leeds

6.1 Since April 2013 the cost to the collection fund of settling appeals has been £90.11 million, Leeds' share of this cost being £44.16 million, although this has varied from £12.95 million in 2013-14 (Leeds' share £6.34 million) to £39.06 million in 2015-16 (Leeds' share £19.14 million). This volatility has further added to the difficulty of managing the costs of appeals in the city.

6.2 Leeds City Council, as a billing authority, receives a refreshed list of all proposals and appeals lodged with the VOA and VTE every month. It is this list that forms the basis of the provision that the Council makes each year, holding back income for future repayments due to successful appeals. In line with accounting rules Leeds City Council only makes provisions for appeals and reductions in RV about which it has specific knowledge.

6.3 Unfortunately the information received from the VOA is difficult to assess because the detail is limited. The VOA state that this is because of their duty of confidentiality to taxpayers, as they are a part of HMRC. Despite recent legislation allowing the VOA to release further information to certain bodies, including billing authorities, there has, as yet, been little change in the exchange of that information. Assessing the cost to the Council therefore needs to be based on this limited information, some further advice at meetings with the VOA and the professional judgement of the business rates department.

6.4 As at 31st July 2016 there were 6,194 appeals outstanding in the Leeds City Council area affecting 4,500 properties. This means that RV of over £401million is subject to at least one appeal in Leeds, which is a little under 45% of the total RV in the city and does not include other specific advice we have received about properties, such as retail properties in the city centre. As at 31 July 2016 Leeds City Council has felt it necessary to hold back £23.38 million against future losses due to reductions in ratepayers' RV.

Figure 4.1: Illustration of the gearing effect of backdated appeals

Loss of Rateable Value in 2016-17 backdated to 1 April 2010			**£1,000**
multiplied by small business rates multiplier for: -			
	2016-17	0.484	
	2015-16	0.480	
	2014-15	0.471	
	2013-14	0.462	
	2012-13	0.450	
	2011-12	0.426	
	2010-11	0.407	
	TOTAL	3.180	
Total cost of refunding ratepayer: -			**£3,180**
Growth in Rateable Value needed in 2016-17			**£6,570**
multiplied by 2016-17 small business rates multiplier: -		0.484	
to meet costs arising from appeal			£3,180
Rateable Value has to grow by £6.57 to meet loss in RV of £1.00 due to backdated appeal			

Annex 5: Revaluation

1. Revaluation is the point in the system at which economic changes in property values are reflected in rateable values. Between revaluations, rateable values only change through appeals and physical changes to the property or location. The Government is required at the point of revaluation to reset the multiplier to ensure no more is raised in total business rates, although rates payable for individual properties can change.

Figure 5.1: Simple Revaluation Model

	Authority A	Authority B	Authority C	Authority D	Total
Before Revaluation					
Property 1	800	250	900	800	
Property 2	1,000	1,200	900	700	
Property 3	1,500	600	1,000	600	
Total RV before revaluation	3,300	2,050	2,800	2,100	10,250
Multipier	0.48	0.48	0.48	0.48	
Income generated	**1,584**	**984**	**1,344**	**1,008**	**4,920**
After Revaluation					
Property 1	1,000	300	1,000	1,011	
Property 2	2,000	1,300	1,000	885	
Property 3	2,000	700	1,000	758	
Total RV after revaluation	5,000	2,300	3,000	2,654	12,954
New Multiplier	0.38	0.38	0.38	0.38	
Income generated (unchanged)	**1,899**	**874**	**1,139**	**1,008**	**4,920**
% increase in RV	52%	12%	7%	26%	26%
% change in income	20%	-11%	-15%	0%	0%

2. As the illustration shows, a revaluation will increase the business rates income generated for some authorities but others will lose income. The Government then adjusts each authority's **tariff** or **top-up** to ensure that their retained income is the same after revaluation as immediately before.

Annex 6: Self-sufficient local government: 100% Business Rates Retention Summary of Questions

Question 1: Which of these identified grants/ responsibilities do you think are the best candidates to be funded from retained business rates?

The grants/ responsibilities identified in the consultation document are:

- *Revenue Support Grant*
- *Rural Services Delivery Grant*
- *Greater London Authority Transport Grant*
- *Public Health Grant*
- *Improved Better Care Fund*
- *Independent Living Fund*
- *Early Years Grant*
- *Youth Justice funding*
- *Local Council Tax Support Administration Subsidy and Housing Benefit Pensioner Administration Subsidy*
- *Attendance Allowance*

Question 2: Are there other grants/ responsibilities that you consider should be devolved instead of or alongside those identified above?

Question 3: Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?

Question 4: Do you have views on whether some or all of the commitments in existing and future *(devolution)* deals could be funded through retained business rates?

Question 5: Do you agree that we should continue with the new burdens doctrine post-2020?

Question 6: Do you agree that we should fix reset periods for the system?

Question 7: What is the right balance in the system between rewarding growth and redistributing to meet changing need?

Question 8: Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?

Question 9: Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

Question 10: Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

Question 11: Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

The identified powers and incentives in the consultation document are:

- *An enhanced role in achieving growth*
- *Greater responsibility for the distribution of resources within the Combined Authority area*
- *Greater role in deciding how 'growth' is redistributed across the area*
- *A single area wide 'baseline' of relative need with a single top-up or tariff for the area*

- *Greater responsibility for determining the relative needs baseline itself*

Question 12: What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?

Question 13: Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?

Question 14: What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?

Question 15: Would it be helpful to move some of the 'riskier' hereditaments off local lists? If so, what type of hereditaments should be moved?

Question 16: Would you support the idea of introducing are level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?

Question 17: At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area (including Combined Authority), or national level (across all local authorities) management as set out in the options above?

Question 18: What would help your local authority better manage risks associated with successful business rate appeals?

Question 19: Would pooling risk, including a pool-area safety net, be attractive to local authorities?

Question 20: What level of income protection should a system aim to provide? Should this be nationally set or defined at area levels?

Question 21: What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

Question 22: What are your views on the interaction between the power to reduce the multiplier and the local discount powers?

Question 23: What are your views on increasing the multiplier after a reduction?

Question 24: Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

The issues discussed in the consultation document are:

- *The appropriate scale for reducing the multiplier could be determined by Mayoral Combined Authorities, alongside decisions on an infrastructure levy;*
- *Whether arrangements should be put in place to limit the impact of decisions to reduce the multiplier on neighbouring areas.*

Question 25: What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?

Question 26: What are your views on how the infrastructure levy should interact with existing BRS *(Business Rates Supplement)* powers?

Question 27: What are your views on the process for obtaining approval for a levy from the LEP?

Question 28: What are your views on arrangements for the duration and review of levies?

Question 29: What are your views on how infrastructure should be defined for the purposes of the levy?

Question 30: What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

Question 31: Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

The issues discussed in the consultation document are:

- *Extension of the power to raise an infrastructure levy beyond Combined Authority Mayors;*
- *To extend the business consultation requirements more widely;*
- *Inclusion of a discount power for Business Improvement Districts;*
- *Amendment of the definition of infrastructure to provide authorities with greater flexibility.*

Question 32: Do you have any views on how to increase certainly and strengthen local accountability for councils in setting their budgets?

Question 33: Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?

Question 34: Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

Question 35: Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?

Question 36: Do you have views on how the Business Rates data collection activities may be altered to collect and record information in a more timely and transparent manner?

(Text in italics has been added to clarify the questions as originally written.)

Annex 7: Fair Funding Review: Call for evidence Summary of Questions

Question 1: What is your view on the balance between simple and complex funding formulae?

Question 2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

Question 3: Should expenditure based regression continue to be used to assess councils' funding needs?

Question 4: What other measures besides councils' spending on services should we consider as a measure of their need to spend?

Question 5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

The techniques discussed in the consultation document are:

- ***Expenditure based regression*** *– This technique attempts to explain the variation in spending between local authorities by using the characteristics of areas and their populations.*
- ***Non-expenditure based regression*** *– This is where indicators of need are calculated using data from key service statistics.*
- ***Multi-level modelling*** *– This technique takes account of the nested sets of data available on local authority services. It allows needs indices to be calculated based on how well they predict expenditure within a typical local authority, as opposed to between them.*

Question 6: What other considerations should we keep in mind when measuring the relative need of authorities?

Question 7: What is your view on how we should take into account the growth in local taxes since 2013-14?

Question 8: Should we allow step-changes in local authorities' funding following the new needs assessment?

Question 9: If not, what are your views on how we should transition to the new distribution of funding?

Question 10: What are your views on a local government finance system that assessed need and distributed funding at a larger geographical area than the current system – for example, at the Combined Authority level?

Question 11: How should we decide the composition of these areas if we were to introduce such a system?

Question 12: What other considerations would we need to keep in mind if we were to introduce such a system?

Question 13: What behaviours should the reformed local government finance system incentivise?

Question 14: How can we build these incentives in to the assessment of councils' funding needs?

(Text in italics has been added to clarify the questions as originally written.)

This page is intentionally left blank

LEEDS CITY COUNCIL

Report author: Coral Main

Tel: 0113 39 51572

Report of the Deputy Chief Executive

Report to the Corporate Governance and Audit Committee

Date: 16th September 2016

Subject: Risks and Opportunities Associated with the EU Referendum Result

Are specific electoral wards affected? If relevant, name(s) of ward(s):	☐ Yes	☐ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☐ No
Is the decision eligible for call-In?	☐ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: Appendix number:	☐ Yes	☐ No

Summary of main issues

1. In response to a request from the Corporate Governance and Audit Committee at its June meeting, this paper provides assurance on the council's arrangements in place to identify and manage the potential risks and opportunities associated with the European Union (EU) referendum result.
2. It draws on and references a range of associated reports received by this Committee and the Executive Board and focuses on the particular risk areas of economic uncertainty, community cohesion and hate crime, the council's financial position and legal / regulatory changes.
3. In line with the council's Risk Management Policy, these risks are, and will continue to be, monitored and mitigated with potential opportunities exploited.

Recommendations

Corporate Governance and Audit Committee is requested to note the assurances provided in this paper and the related reports referenced on the organisation's arrangements in place to manage the risks associated with June's EU referendum result.

1 Purpose of this report

1.1 This report provides assurances to the Committee that the council has effective arrangements in place to identify and manage the risks – including potential opportunities – associated with the vote to leave the EU.

1.2 The report does not go into detail on the actual risks themselves; instead, it focuses on the council's risk management mechanisms in relation to the key 'Brexit' risk areas to support the Committee in fulfilling its role under the council's Risk Management Policy and the Committee's own Terms of Reference to review the 'adequacy of the council's Corporate Governance arrangements (including matters such as internal control and risk management)'.

2 Background information

2.1 At its last meeting on 24th June, the Corporate Governance & Audit Committee considered reports providing assurance on the council's risk management arrangements and its corporate risk register. Following the EU referendum result earlier that morning, the Committee requested a follow-up report for its next meeting 'to provide reassurance that arrangements are in place to identify and manage any emerging risks [related to 'Brexit'].'

3 Main issues

3.1 The result of the EU referendum has triggered a period of uncertainty for the UK with potentially wide-ranging implications that will emerge over the coming months and years. This uncertainty brings with it a variety of risks and opportunities for the council and the city, notably in relation to economic uncertainty, community cohesion, the council's financial position and longer-term legal/regulatory changes.

3.2 The following paragraphs outline the arrangements the council has in place to manage these risks and opportunities, referencing existing reports where available, in particular the report, '*Leeds City Council's initial response to the referendum on the UK's membership of the European Union'* which was considered by the Executive Board at its July 2016 meeting (hereafter referred to as 'Initial response' and attached at Appendix 1 for ease of reference). The Committee is also referred to the latest annual assurance report on the council's overarching risk management arrangements considered at its June 2016 meeting.

Economic uncertainty

3.3 The 'Initial Response' report set out the potential risks and opportunities to the council and city resulting from a period of economic uncertainty. These include:

- Reduced inward investment to the UK, Leeds City Region and to Leeds;
- Risks to current projects and those in the pipeline funded through EU grants;
- Potential shortfall in research funding to universities, affecting their ability to attract and welcome talent;
- Slowdown in the housing market, impacting the construction sector and housing growth and affordability;
- Decline of sterling negatively impacting on imports due to rising costs and adding to inflationary pressures but also making exports more competitive;

- Interest rates going down further, helping those with mortgages and reducing the cost of public sector borrowing;
- Changing patterns of economic migration, impacting on easy access to skills and labour and limiting future economic growth with more localised impacts on demands for public services, housing and employment patterns; and
- Potential shifts in the government's position on austerity and devolution.

3.4 The report details a series of practical objectives and actions the council, working closely with partners, is taking to mitigate the potential negative effects of Brexit – and maximise any emerging opportunities - with the aim of supporting people, growth, businesses and key institutions in the city. The actions focus on five main areas:

1. Maintaining momentum on major development and infrastructure schemes, and economic growth projects;
2. Supporting business and key institutions;
3. Creating a more tolerant and united city;
4. Securing devolution; and
5. Providing confident, outward-looking leadership and image of Leeds as an international city and Capital of Culture

3.5 The Committee is referred to section 3 of the 'Initial Response' report for full details of the actions which can be summarised based on the report recommendations.

1. The Chief Officer Economy & Regeneration will identify the impact of the economic uncertainty on major development projects and measures that could be undertaken by the council - working with the LEP and Combined Authority – to de-risk existing schemes, and to bring forward new projects to take advantage of the positive exchange rate.
2. Making the case to Government to secure the European Structural Investment Funding (ESIF) committed to the Leeds City Region over the remainder of the period the UK is a member of the EU, and once the UK leaves the EU, for funding to replace the European Funds earmarked for the city region.
3. The Chief Executive Economy & Regeneration will put in place strengthened Key Account Management mechanisms for supporting businesses, particularly those where there is a potential risk of disinvestment, and key institutions in the city that could be affected by changes in EU funding, and their ability to recruit staff from across the EU.
4. The Chief Officer Economy & Regeneration will set up a standing task force to respond to any major disinvestment and redundancies, by providing support for people to find alternative jobs, and seeking to attract investment to sites that become available.
5. Continue to promote a tolerant, open and inclusive city. Provide information and advice to people on the implications of Brexit and reassuring them that are welcome to live and work and Leeds, and monitor and seek to tackle any community tensions.
6. Continue to make the case for increased devolution to ensure Leeds and the City Region have the powers and resources to respond to changing

economic circumstances, and to do so in a way that connects local people better with the making of decisions that affects their lives.

7. Enhance the image of Leeds on the global stage as an outward-looking, diverse and international city by continuing to promote inward investment in Leeds, attract international visitors, strengthen existing international partnerships and reaffirm our support to the bid for Leeds to become European Capital of Culture in 2023. If the UK is not eligible for a Capital of Culture (which is only one of a number of possibilities), consider the potential for a major international cultural festival to bring people together and to promote Leeds internationally.

3.6 The report's recommendations were all approved by July's Executive Board and these actions are now underway, providing assurance to this Committee. Specific additional assurances with regard to community cohesion are given below.

Community cohesion & hate crime

3.7 Leeds is an international, diverse, welcoming and outward looking city where everyone has a right to live without intimidation and fear. The vast majority of people live and work together harmoniously, but where differences are not fully understood or valued then tensions can occur. The council has a role to play in supporting communities to work together, strengthen community cohesion, and help break down barriers to ensure mutual understanding and respect on all sides.

3.8 Although nationally there has been a rise in race hate since Brexit, the increase in Leeds has been minimal. The comparative figures for Leeds over the longer year to date period show that Leeds Anti-Social Behaviour Team (LASBT) received 107 hate enquiries during the 19 week period 1/4/16-11/8/16, with 101 being received during the same period in 2015. Hate reports do fluctuate dramatically in response to national/global events such as the Lee Rigby murder, the Charlie Hebdo attacks, the Israeli invasion of Gaza and more recently the attacks in Paris/Belgium and so the wider context must also be borne in mind.

3.9 Prior to Brexit, a full review of Leeds' Hate Crime Strategy and its associated action plan had begun. This was in response to the changes which have taken place since its launch in 2014, including the introduction of the Anti-Social Behaviour, Crime and Policing Act, and the focus given to responding to Hate Crime from the Director of Environment & Housing. The revised Leeds Strategy will also reflect the government's updated 4-year 'Action against Hate' plan, published in July 2016. This document outlines 5 key areas to focus on which reflect actions already in progress in Leeds:

1. Preventing hate crime
2. Responding to hate crime in our communities
3. Increasing the reporting of hate crime / incidents
4. Improving support for the victims of hate crime
5. Building our understanding of hate crime

3.10 Whilst the formal reporting has not increased significantly since Brexit, newcomers are telling third sector organisations that they feel less safe now and are subject to more race hate incidents - not all of which are formally reported. It is vital that people feel able to report incidents so that they can both be and feel safe. The strategy for Leeds recognises (as reported by Stop Hate UK) that Hate incidents are significantly under reported and so aims to increase peoples' confidence to report whilst decreasing the prevalence of repeat victims.

3.11 Leeds is very much ahead of the field in terms of its partner working, established Hate Incident reporting mechanisms, schools reporting programme and the joined up council/Police response to dealing with hate crimes and incidents. Through the review of the Leeds Hate Crime Strategy, key additional actions include:

- An assessment of all Hate Incident Reporting Centres in Leeds to ensure they are still in a position to inform, advise and take reports, with refresher training being provided where needed.
- The development of new 'Hate Incident Signposting Centres' within local community-facing organisations is also being explored to ensure victims of Hate who might feel isolated and unwilling to report to statutory partners are given the right advice and encouragement to report.
- Safer Schools officers in Leeds are being trained to deliver 'Show Racism the Red Card' workshops in schools from September onwards as part of a renewed effort to raise awareness in all schools about the established hate incident reporting scheme and to improve children's confidence to recognise and report appropriately. This forms part of the Leeds Hate Incident Reporting in Schools (HIRS) scheme which has been operational since 2014.
- A cross-council strategic governance board is being set up to monitor how LASBT and its partners respond to Anti-Social Behaviour and Hate incidents with the aim of ensuring that services improve our responses to, and support for, victims.

3.12 More information on the council's wider approach to community cohesion and our statutory Prevent duty will be made available to the Executive Board at its 21st September 2016 meeting in the, '*Strong and Resilient Communities – A Refreshed Approach to Delivering Cohesion and Prevent across the City'* report.

Council's financial position

3.13 The key risk to the council's financial position and financial strategies is the increased level of uncertainty following the EU referendum: greater economic uncertainty (as outlined in the previous section) with implications for business rates and council tax collection rates as well as the effect on the financial markets impacting on the council's pension fund linked to investments; a potential economic slowdown increasing demands on public services and impacting on our ability to realise capital receipts; uncertainty around the levels of core government funding going forwards; uncertainties around the cost of financing the council's debt, particularly short-term borrowing, and the potential for increasing inflation driving costs up.

3.14 However, none of these are new risks and the council has robust arrangements in place to identify, monitor and mitigate these – and other - key financial risks that could impact upon the council's budget, capital programme and longer-term financial strategies, as reported regularly to this Committee. The latest assurance report on the council's financial management and control arrangements was considered by the Committee at its June 2016 meeting, with additional independent assurances provided by Internal Audit and the authority's external auditors, KPMG.

3.15 Going forwards, a full risk assessment will continue to be undertaken of the council's financial plans as part of the normal budget process and a full analysis of budget risks will continue to be maintained, subject to monthly review as part of the in-year monitoring and management of the budget. Any significant and new risks/budget variations will continue to be included in the in-year financial reports brought to the Executive Board. The council's draft Medium-Term Financial Strategy, to be considered at the September 2016 Executive Board meeting, includes a specific section on risk management and considers the effects of Brexit.

Legal / Regulatory Risk Management

3.16 There are no immediate legal/regulatory risks arising from Brexit, because even when the UK serves the necessary notice under the Treaties to start the process for leaving the EU, this will not in itself prevent EU laws from continuing to have effect in the UK.

3.17 Once the UK has left the EU, risks could arise if there was a repeal of the European Communities Act without subordinate legislation being saved, as this would not only eliminate the repealed statute but also a large number of regulations passed under it and which affect how the council operates: for example, TUPE regulations, the Environmental Impact Assessment Regulations, the Environmental Information Regulations and the Public Contracts Regulations.

3.18 It seems unlikely however, that the government would embark on a wholesale repeal of EU law in this way, given that a considerable percentage of national laws are based on or influenced by the EU, and that a wholesale repeal could create considerable 'gap' in the law. Further, the Brexit negotiations and the terms of the UK's future relationship with the EU themselves may impact on whether some or all UK laws derived from the EU are repealed: for example, if part of a deal for the UK to access the single market included requirements to preserve or adopt EU standards on equalities or data protection regulations.

3.19 In addition, where EU law has been incorporated into UK law by primary legislation - for example the Equalities Act - this would still apply until it was specifically repealed by Act of Parliament. Also, some EU law – such as the State Aid rules - rest on Treaty provisions and so would cease to apply automatically when the UK leaves, whereas others – for example, the Anti-Money Laundering rules - derive from the UK's membership of a separate international organisation.

3.20 It seems likely therefore, that to prevent uncertainty about which EU laws will continue to apply, and which will not, the government will undertake some kind of review and that particular laws will be saved, repealed or amended over time, depending on whether the government supports it on policy grounds and wishes and is able to retain it, or whether it is law which the government regards as inappropriate or burdensome. It is possible that risks could arise from such a review, but it is anticipated that this may be a long-term process and that directorates whose functions are affected by legislative change will respond to consultations, and make preparations for these changes in the usual way.

3.21 Risks could arise if council directorates assume the Brexit vote means that forthcoming EU laws will not apply: for example, the new General Data Protection Regulation is not due to come into force until 2018, but it is unlikely that the UK will have left the EU by the implementation date. In addition, if the UK then failed to adopt the Regulation into domestic law, transfers of data between the UK and

EU could be seriously affected. Therefore, the council's Information Management Board has agreed that arrangements should be put in place to prepare for this Regulation across all directorates.

3.22 In terms of identifying, monitoring, and mitigating risks which may arise, it is anticipated that the usual arrangements will apply in relation to a review of legislation, and also in relation to any forthcoming EU laws, in that directorates whose functions are affected will prepare for changes in the usual way, and will seek guidance and advice from Legal Services as needed. In addition, Legal Services will continue to monitor the government's plans for reducing or removing laws based on or influenced by the EU, and will advise directorates accordingly.

4 Corporate considerations

4.1 Consultation and engagement

4.1.1 Further discussion with stakeholders will be ongoing as required as the Brexit negotiations evolve and there is a better understanding of the implications for the council and city. Colleagues in Finance, Legal Services, Citizens & Communities and the Corporate Leadership Team have been consulted when writing this report.

4.2 Equality and diversity / cohesion and integration

4.2.1 This is an assurance report with no decision required. Due regard is therefore not directly relevant.

4.3 Council policies and Best Council Plan

4.3.1 Leaving the EU has the potential to impact on our Best Council / Best City ambitions but the council – working with partners – will continue to promote the city in order to grow the economy and deliver better outcomes for Leeds as set out in the Best Council Plan. Effective management of the range of risks that could impact upon the city and the council supports the delivery of all Best Council Plan outcomes and priorities, contributing to the dual aims of Leeds having a strong economy and being a compassionate city with the council itself continuing to be an efficient and enterprising organisation.

4.3.2 The risk management arrangements in place support compliance with the council's Risk Management Policy and Code of Corporate Governance, through which, under Principle 4, the authority should take 'informed and transparent decisions which are subject to effective scrutiny and risk management'.

4.4 Resources and value for money

4.4.1 It is too early to tell what the potential impact of leaving the EU will have on resources, particularly in the areas where EU funding may now be in doubt. More widely, the potential economic impacts that materialise over the coming months and years will continue to be monitored carefully.

4.4.2 All council risks are managed proportionately, factoring in the value for money use of resources.

4.5 Legal Implications, access to information and call In

4.5.1 The council's risk management arrangements support the authority's compliance with the statutory requirement under the Accounts & Audit Regulations 2011 to have ‘a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes arrangements for the management of risk.’

4.5.2 This report is subject to call in.

4.6 Risk management

4.6.1 Leaving the European Union presents risks as outlined in the report. The council has arrangements in place to identify, monitor and mitigate them in line with its existing risk management processes.

5 Conclusions

5.1 The result of the EU referendum has triggered a period of uncertainty for the UK with potentially wide-ranging implications that will emerge over the coming months and years. This uncertainty brings with it a variety of risks for the council and the city, notably in relation to economic uncertainty, community cohesion, the council’s financial position and longer-term legal/regulatory changes. Potential opportunities may, however, also arise: for example, through new and/or better trade deals and increased exports; lower public sector borrowing costs and an improved legal and regulatory framework.

5.2 In line with the council’s Risk Management Policy, these risks are, and will continue to be, monitored and mitigated with potential opportunities exploited and so assurance can be provided to this Committee of the authority’s arrangements in place to manage the risks associated with the EU referendum.

6 Recommendations

6.1 Corporate Governance and Audit Committee is requested to note the assurances provided in this paper and the related reports referenced on the organisation’s arrangements in place to manage the risks associated with June’s EU referendum result.

7 Background documents[1]

7.1 None

[1] The background documents listed in this section are available to download from the Council’s website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Appendix 1

Report author: Tom Riordan / Tom Bridges

Report of Chief Executive

Report to Executive Board

Date: 27th July, 2016

Subject: Leeds City Council's initial response to the referendum on the UK's membership of European Union

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☒ Yes	☐ No
Is the decision eligible for Call-In?	☒ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ No

Summary of main issues

1. This report sets out the Council's proposed initial response to the referendum on the UK's membership of the European Union held on 23rd June, 2016. Brexit will have national and local implications and Leeds will not be immune from its impact. Whilst it is important we consider the implications carefully, not all of which are yet apparent, there is a need to respond quickly to the initial implications. Our city has proved its resilience repeatedly in the past; we have a diverse economy, and are a strong community of businesses, institutions and people.

2. The ambition for a strong economy, compassionate city is set out in the Best Council Plan, now more than ever it is important to continue with our approach of promoting economic growth and tackling poverty. By enhancing the ability of all our people to contribute to their full potential we can boost the economic productivity and competitiveness of Leeds. We are an inclusive, tolerant and united city committed to helping every person in Leeds fulfil their potential.

3. We need to ensure major development and infrastructure schemes do not stall, working with developers and investors to bring forward significant development, leading to billions of pounds of investment and delivery of thousands of jobs. We will continue to seek to secure European funding, work towards our cultural ambitions and continue to present Leeds as an outward looking, international city.

4. The referendum highlighted divisions between north and south, cities and rural areas, old and young. In this context the case for devolution has become even stronger and our focus will be on the success and well-being of Leeds and its city region. We will continue to take a lead as a city to work with our partners, central and local government, and local communities to ensure that we address local issues and opportunities in Leeds.

Recommendations

Executive Board is recommended to approve the following:

1. Request that the Chief Officer Economy and Regeneration identifies the impact of the economic uncertainty on major development projects, and measures that could be undertaken by the Council working with the LEP and Combined Authority to de-risk existing schemes, and to bring forward new projects to take advantage of the positive exchange rate.

2. Make the case to Government to secure the European Structural Investment Funding (ESIF) committed to Leeds City Region over the remainder of the period the UK is a member of the EU, and once the UK leaves the EU, for funding to replace the European Funds earmarked for the city region.

3. Request that the Chief Officer Economy and Regeneration puts in place strengthened Key Account Management mechanisms for supporting businesses, particularly those where there is a potential risk of disinvestment, and key institutions in the city that could be affected by changes in EU funding, and their ability to recruit staff from across the EU.

4. Request that the Chief Officer Economy and Regeneration sets up a standing task force to respond to any major disinvestment and redundancies, by providing support for people to find alternative jobs, and seeking to attract investment to sites that become available.

5. Continue to promote a tolerant, open and inclusive city. Provide information and advice to people on the implications of Brexit and reassuring them they are welcome to live and work in Leeds, and monitor and seek to tackle any community tensions.

6. Continue to make the case for increased devolution to ensure Leeds and the City Region have the powers and resources to respond to changing economic circumstances, and to do so in a way that connects local people better with the making of decisions that affect their lives.

7. Enhance the image of Leeds on the global stage as an outward-looking, diverse and international city by continuing to promote inward investment in Leeds, attract international visitors, strengthen existing international partnerships and reaffirm our support to the bid for Leeds to become European Capital of Culture in 2023. If the UK is not eligible for a Capital of Culture (which is only one of a number of possibilities), consider the potential for a major international cultural festival to bring people together and to promote Leeds internationally

1 Purpose of this report

1.2 This report sets out the steps Leeds City Council, working closely with partners, will take to support people, growth, businesses, and key institutions in the city following the EU Referendum. It is likely that there will be a period of economic uncertainty which may have an impact on investment and key institutions in the city, including the Council. Many of our people will be concerned about the impact on them, particularly EU nationals who have chosen Leeds as a place to live and work.

1.3 We need to manage these risks and remain calm and focused on the interests of the city. The report sets out objectives and actions to help with this. Leeds has proven repeatedly in the past that it is a resilient city, where people, businesses and key institutions pull together when necessary, and we can do so again in the days, weeks and months ahead.

2 Background information

2.1 This report is in response to the referendum held on 23rd June where the UK voted to leave the European Union.

2.2 The long term effects of the result are unknown, which creates uncertainty, both in terms of our new relationship with the EU and the rest of the world. Our region has just had one of its most successful periods of inward investment, as result of the UK's primary position in the EU league table for Foreign Direct Investment, and Leeds has being able to take advantage of this as the second most popular core city for Foreign Direct Investment.

2.3 The Leeds City Region receives support from the European Union in the form of grants, the total value of European Structural and Investment Funds (ESIF) over the lifetime of the programme, to the Leeds City Region is £303m. The projects which are currently in the pipeline for Leeds are valued at £29m, with additional funding possible if the ESIF programme continues.

2.4 Projects that are in the pipeline will fund:

- Employment and skills support for local people to ensure that they can access local and more highly skilled jobs;
- Support for our local businesses, including those in key sectors, to ensure that they can grow and create a vibrant economy;
- Measures to create district heating networks and innovative energy efficiency measures for those living in social housing; and
- Support to link local businesses with innovation, research and development capacity in Universities.

2.5 There is also the potential for ESIF and the European Union Solidarity Fund to fund future flood alleviation works. The Solidarity Fund is to support EU member states in the immediate aftermath of natural disasters. Applications must be made by national governments and one is currently being considered by the EU. Within the Leeds City Region ESIF Programme, around £12m is allocated to flood alleviation and green infrastructure projects.

2.6 The EU also provides research funding to our Universities as well as important opportunities for student exchange, which benefit both domestic and EU students and contribute to our international community. Leeds University has 1,300 students who are from the EU and 690 staff, whilst Leeds Beckett University has an additional 545 students and 184 staff from the EU.

3 Main issues

Overview

3.1 This report identifies five main areas where the council and its partners can focus on in this period of uncertainty. Leeds is a resilient city with a strong economy, and an attractive place to live, work, visit and invest. It is proposed that we will prioritise:

- Maintaining momentum on major development and infrastructure schemes, and economic growth projects;
- Supporting business and key institutions;
- Creating a more tolerant and united city;
- Securing devolution; and
- Providing confident, outward-looking leadership and image of Leeds as an international city.

3.2 The referendum result has demonstrated that there are many people who feel alienated by globalisation, people who do not feel the effects of our financial recovery in an economy that has become increasingly unbalanced, and people who experience public services under huge strain. Local communities who have voted for more of a say in their affairs. This needs addressing and one way is more devolved powers to regions, something the council will continue to lobby the government for.

3.3 We are working with business to assess confidence at a time when the details of Brexit and the future economic landscape are not yet known. Investment and development is thriving in Leeds and any loss would have an impact. A slowdown in the housing market would harm our construction sector and those looking to get on the housing ladder. Many schemes in Leeds rely on foreign investment and there are foreign owned companies in Leeds who employ local workers. Any difficulties in raising finance will need to be closely monitored.

3.4 Many of our companies import and export goods and the decline of sterling will have an impact on price, raising costs for imports but making our exports more competitive. The fall in the pound will also add to inflationary pressures.

3.5 There is a potential for a downward trend in interest rates, which will help with mortgage payments. It will also reduce the cost of public sector borrowing which presents opportunities for the council.

3.6 Free movement of workers has been a significant factor in the growth of the UK economy, particularly as it has recovered from last economic downturn. Limiting easy access to skills and labour may well limit future economic growth. However, migration can have localised impacts in terms of demand for services, housing and employment patterns. Whilst any changes to migration will not be immediate - it is likely that we will see a change in the patterns of economic migration.

3.7 Our universities rely on a large amount of EU funding and students from overseas who come to Leeds to study. Continuing to attract and welcome talent from across Europe and around the world is vital to both the academic and financial success of our Universities and, consequently, their positive impact on the city region. It is essential that the Government plans to make up any shortfall in research funding resulting from Brexit.

3.8 There is the potential that Government may bring forward economic stimulus measures. There is also a change in the government's position on austerity following the result with an acknowledgement that the budget surplus may not be reached by 2020.

Maintaining momentum on major development and infrastructure schemes, and economic growth projects

3.10 Leeds is a growing city with billions of pounds of investment in the development pipeline. The issues relating to European Structural Investment Funds are set out in section 2 of the report.

3.11 Nationally, the Government must do what it can to create economic stability and to reassure international investors in the UK. This should include a strengthening commitment to major infrastructure projects such as flood alleviation, HS2 and improved rail links to other cities in the north.

3.12 Locally, we need to build on the connections we have made with developers and investors. Following the recession the council has been able to work collaboratively with the private sector, working to get development started and share the risk on big job creating projects, such as Kirkstall Forge, Victoria Gate, the Arena, and the Enterprise Zone in the Aire Valley. When the Trinity Leeds development stalled in 2009 following the economic downturn the project was in doubt, but Leeds proved its resilience and once it restarted in 2010, the shopping centre was completed and became a great success story for the city. We will continue this work, alongside partners including the LEP to put in place the emergency funding mechanisms to try and shore up investor confidence in Leeds.

3.13 Housing is an area which is showing signs of a slowdown following Brexit. This may be a temporary blip, and Leeds has a strong construction sector which is better placed than many to weather any storm, but it is still necessary to monitor housing delivery against our ambitious targets for housing growth.

3.14 We will ensure major development and infrastructure schemes do not stall by:

- enhancing key account management with the developers and funders of major schemes;

- identifying alternative investment mechanisms, working with the LEP, other Northern Powerhouse cities, and Government;

- Seeking assurances from Government on major infrastructure projects planned for Leeds; and

- Making the case to Government to secure the European Structural Investment Funding (ESIF) committed to Leeds City Region over the remainder of the period the UK is a member of the EU, and once the UK leaves the EU, for funding to replace the European Funds earmarked for the city region.

Supporting business and key institutions

3.15 The impact of Brexit on businesses will be far reaching and we need to support business and key institutions. We will need to assess the impact on our Universities and colleges given the importance of their international students, collaborations with other Universities across the world, and the significant research funding they receive from the EU.

3.16 We will support businesses and key institutions in Leeds by:

- providing advice to businesses about potential implications and timescales of Brexit, including channelling interested businesses to financial and professional services advice;

- enhancing our key account management of priority businesses;

- setting up a standing task force to deal with major potential relocations or redundancies;

- reviewing council financial decisions and exposure in the context of Brexit (and making the case to counter the risk of further austerity);

- assessing the impact on Universities and FE colleges, who have large numbers of overseas students, and many international collaborations;

- considering the impact on the NHS, especially Leeds Teaching Hospital Trust, given the importance of workers from the EU to keeping health services running; and

- quantification of the potential knock-on impact on the city economy, and the identification and implementation of mitigating actions.

Creating a more tolerant and united city

3.17 The referendum has demonstrated clear differences between groups in our society. These are geographical, with northern England and Wales favouring Brexit as opposed to Scotland, London and Northern Ireland who all voted to remain. But there are also splits between rich and poor, between young and old, between city and suburbs / rural areas, between people enthusiastic about globalisation and those concerned by it.

3.18 We need to reinforce our values in Leeds as an international, diverse, welcoming and outward looking city, whilst recognising and responding to the concerns of those who feel insecure, who feel they are not benefiting from globalisation, and who are experiencing the consequences of public services under pressure as a result of austerity. We must do so by ensuring the absolute right of all our people to live their lives without intimidation and fear.

3.19 Leeds has a proud heritage and is a historically diverse city, currently it is home to over 140 ethnic groups and many EU nationals. The vast majority of people live and work together harmoniously, but where differences are not fully understood or valued then tensions can occur. It is important that we support communities to work together, strengthen community cohesion and help break down barriers to ensure that there is understanding and respect on all sides. We will monitor any racial incidents closely, and act decisively if these do occur. A paper will be presented to Executive Board in September which sets out the council's plans for community cohesion in more detail.

3.20 We are committed to promoting our city, and are currently bidding to become European Capital of Culture 2023, something which will hopefully still be possible once we leave the EU. Another great example is the Leeds West Indian Carnival which celebrates its 50th year in 2017.

3.21 Now is the perfect time to emphasise our values as a compassionate and tolerant city by:

- providing advice to reassure individual citizens and communities; including non-UK EU citizens of potential implications;
- supporting people to access jobs and housing;
- tackling quickly and robustly any cases of racist abuse and / or intimidation; and
- building a greater understanding across local communities of the value and benefits that international staff, students and visitors bring to the local economy.

Securing devolution

3.22 There is now a need for bold and decisive action. The focus and attention of Whitehall is now going to be on negotiating Brexit. Our focus will be on the success and well-being of Leeds and its city region. We have proven in recent months and years we can deliver.

3.23 If the UK is going to grow to its full potential we need places like Leeds to contribute more. We are huge in scale with a city region of three million people including one and a half million jobs. Our annual economic output is larger than Wales - five percent of the UK economy.

3.24 When programmes are devolved we have had successes. The Leeds City Region Business Growth Programme is one example where we have channelled three million pounds into Leeds firms, creating over one thousand jobs.

3.25 The referendum showed how disconnected and disaffected people feel from a London based elite of politicians, civil servants, and media that do not understand the issues and challenges people face outside the capital. At a time when Scotland is looking toward independence, and Londoners are talking about their relationship with the UK, we should remember that the population of Yorkshire is larger than that of Scotland, and the economies of the eight largest English cities outside London is 27% of UK plc (London is 22%).

3.26 We will do what we can in Leeds to engage people in the big debates about our city – as we are beginning to do already in areas such as transport and culture. But we have to find new ways of engaging young people, many of whom feel their voice is not heard. We have a strong track record as a child friendly city, and we can build on this, and this must include engaging with the people who feel angry and insecure about globalisation and the lack of opportunity they feel in the modern economy.

3.27 We will seek to secure greater devolution and to reconnect people to politics by:

- putting pressure on Government to agree to a devolution deal;
- assessing how further powers can be transferred from Whitehall to local areas; and
- seeking to broaden the engagement of all our people in the big debates about the future of our city.

Providing confident, outward-looking leadership and image of Leeds as an international city and Capital of Culture

3.28 We will continue to promote Leeds on the global stage setting out a clear plan for securing international investment, promoting trade and exports, attracting visitors, and hosting major events to enhance our image in the world.

3.29 The economic success of Leeds depends on its links to the global economy. Now is not the time to retrench and become inward-looking, Brexit was not an anti-European vote, rather an issue of sovereignty and major cities such as Leeds will need to work hard to project this message positively on the global stage.

3.30 Tens of thousands of jobs in Leeds depend on overseas firms and Leeds is recognised as one of the most attractive cities in the north for inward investment. We are seeing huge investment from places such as China, France, Germany, Spain and Estonia. Our Universities attract students and collaborate with other Universities across the globe. Leeds manufacturers export goods and our finance, legal and digital firms sell their products and services to Europe and the world.

3.31 The city attracts increasing numbers of international visitors supporting thousands of jobs, and our airport is one of the fastest growing in the UK. Our public services depend on the skills and hard work of people from overseas. We have hosted major events such as the Grand Depart of the Tour De France, the World Triathlon Series, and the Leeds International Piano competition which have done so much to advance our image on the world stage.

3.32 The European Capital of Culture competition is designed to celebrate European citizenship by promoting ideas, sharing knowledge and best practice across a range of global issues from climate change to demographic change and digitisation, using culture to unite nations across Europe. Although it is an EU action, the EU is only a relatively minor funder of the competition.

3.33 The title is hosted by two EU member states each year, every third year an additional associate member state also hosts the title. Previously both Norway and Iceland have hosted the title as associate members as part of agreements negotiated with the EU.

3.34 We are advised that a country which is not a member of the EU, a candidate to join the EU, or a ‘potential candidate’ to join the EU is ineligible. The legislation is silent on the eligibility of a country which has left the EU. There is no definition of a ‘potential candidate’.

3.35 The UK last hosted the title in 2008 in Liverpool and prior to that in 1990 in Glasgow, both of which saw extensive regeneration creating a lasting economic legacy for those cities. It remains an important contribution to UK tourism positioning within European markets.

3.36 The next opportunity for a UK city to host the title will be 2023 alongside a city in Hungary. It is understood that it would require EU legislation to change the calendar allocating specific years to specific countries.

3.37 The bidding process is lengthy. Under normal circumstances the Department of Culture, Media and Sport would launch the competition for the UK in autumn 2016. The first stage selection process and shortlisting would take place in autumn 2017, with a second stage early in 2018, and a decision expected by summer 2018. This timescale is designed to allow an appropriate lead-in time to deliver an event of this scale incorporating programming and fundraising considerations. Lottery distributors and local authorities have already started long term budgetary planning which could be compromised should the bidding process experience significant delay.

3.38 At the moment Leeds, Milton Keynes, Dundee, and Bristol have formally declared their intention to bid. Other cities are still considering their position, although any potential additional candidates are considered to be limited in number.

3.39 The competition in Hungary for 2023 is already underway and Germany 2025 is already well advanced. UK cities are at various stages in the development of their bids with significant work stretching back two years or more.

3.40 It is proposed that we promote Leeds as an international, modern, outward-looking city by:

- being open to opportunities for global investment and trade given from the devaluation of sterling;
- proceeding with work on the European Capital of Culture 2023 bid unless a non-EU bid is ruled out, and if it is consider how we can use culture to present a modern global image of Leeds;
- continuing to promote tourism to Leeds; and
- work with the Northern Powerhouse, Core Cities and UKTI on the international agenda.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 Discussions have been held with the relevant Executive Members. There has not been sufficient time following the referendum to have a more wide reaching consultation, however officers have been taking soundings from businesses and partners. The situation with Brexit is evolving and further discussion with business and stakeholders will be ongoing.

4.1.2 A draft of this paper has been shared with the Leeds Chamber of Commerce and the Universities.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 Themes running through this report have an impact on equality and diversity. The Council aims to improve the lives of all its citizens and foster good relations between different groups in the community and it is considered that the recommendations in this report are positive, particularly the continuing commitment to promote a tolerant and inclusive city.

4..2 An Equality Diversity, Cohesion and Integration screening has been undertaken to assess the impact of this report on equality and diversity and is attached as an appendix.

4.3 Council Policies and Best Council Plan

4.3.1 The vision from the Best Council Plan is for Leeds to be a compassionate, caring city that helps all its residents benefit from the effects of the city’s economic growth. This includes a commitment to reduce inequality.

4.3.2 Leaving the European Union has the potential to impact on city priorities particularly on business. This report is the first step of a longer process setting out ways the council, with help from our partners and the city’s businesses can continue to promote the city in order to grow the economy and achieve the aims of the Best Council Plan.

4.4 Resources and value for money

4.4.1 It is too early to tell what impact leaving the European Union will have on resources. As discussed above, the city region receives European Funding which is now in doubt and this could affect our work programme. More widely any potential economic impacts that materialise over the coming months / years will need to be monitored carefully.

4.4.2 The separate financial monitoring report presented to Executive Board provides an initial analysis of the financial risks and implications of Brexit.

4.5 Legal Implications, Access to Information and Call In

4.5.1 There are no significant legal issues relating to the recommendations in this report. The mechanics of Brexit are a matter for government. This report is eligible for Call-In.

4.6 Risk Management

4.6.1 Leaving the European Union presents risks as outlined in the report. These include development, European funding, jobs, disinvestment, community tensions and growth is something that the council and its partners will seek to monitor and address. Where there are limitations to local powers further lobbying to government will be undertaken to present the case for Leeds, the city region and the north.

5 Conclusions

5.1 Following the referendum where the UK voted to leave the European Union, Leeds City Council, working closely with partners, will take action to support people, growth, businesses, and key institutions in the city against any future challenges.

5.2 It is likely that there will be a period of economic uncertainty which may have an impact on investment and key institutions in the city, including the Council. Many of our people will be concerned about the impact on them, particularly EU nationals who have chosen Leeds as a place to live and work.

5.3 The report sets out practical, positive objectives and actions to help minimise any negative effects of Brexit. Leeds has proven repeatedly in the past that it is a resilient city, where people, businesses and key institutions pull together when necessary, and we can do so again in the days, weeks and months ahead.

6. Recommendations

6.1 Executive Board is recommended to approve the following:

1. Request that the Chief Officer Economy and Regeneration identifies the impact of the economic uncertainty on major development projects, and measures that could be undertaken by the Council working with the LEP and Combined Authority to de-risk existing schemes, and to bring forward new projects to take

advantage of the positive exchange rate.

2. Make the case to Government to secure the European Structural Investment Funding (ESIF) committed to Leeds City Region over the remainder of the period the UK is a member of the EU, and once the UK leaves the EU, for funding to replace the European Funds earmarked for the city region.

3. Request that the Chief Officer Economy and Regeneration puts in place strengthened Key Account Management mechanisms for supporting businesses, particularly those where there is a potential risk of disinvestment, and key institutions in the city that could be affected by changes in EU funding, and their ability to recruit staff from across the EU.

4. Request that the Chief Officer Economy and Regeneration sets up a standing task force to respond to any major disinvestment and redundancies, by providing support for people to find alternative jobs, and seeking to attract investment to sites that become available.

5. Continue to promote a tolerant, open and inclusive city. Provide information and advice to people on the implications of Brexit and reassuring them they are welcome to live and work in Leeds, and monitor and seek to tackle any community tensions.

6. Continue to make the case for increased devolution to ensure Leeds and the City Region have the powers and resources to respond to changing economic circumstances, and to do so in a way that connects local people better with the making of decisions that affect their lives.

7. Enhance the image of Leeds on the global stage as an outward-looking, diverse and international city by continuing to promote inward investment in Leeds, attract international visitors, strengthen existing international partnerships and reaffirm our support to the bid for Leeds to become European Capital of Culture in 2023. If the UK is not eligible for a Capital of Culture (which is only one of a number of possibilities), consider the potential for a major international cultural festival to bring people together and to promote Leeds internationally.

7 Background documents[2]

7.1 None.

[2] The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Agenda Item 12

Report author: Tim Pouncey/ Sonya McDonald

Tel: 74214

Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 16th September 2016

Subject: Internal Audit Update Report 1st June to 31st August 2016

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☒ No
Is the decision eligible for Call-In?	☐ Yes	☒ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ No

Summary of main issues

1. The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements. Reports issued by Internal Audit are a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended. This report provides a summary of the Internal Audit activity for the period 1st June to 31st August 2016 and highlights the incidence of any significant control failings or weaknesses.

Recommendations

2. The Corporate Governance and Audit Committee is asked to receive the Internal Audit Update Report covering the period from 1st June to 31st August 2016 and note the work undertaken by Internal Audit during the period covered by the report.

1 Purpose of this report

1.1 The purpose of this report is to provide a summary of the Internal Audit activity for the period 1st June to 31st August 2016 and highlight the incidence of any significant control failings or weaknesses.

2 Background information

2.1 The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements, including matters such as internal control and risk management. The reports issued by Internal Audit are a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended.

2.2 The reports issued by Internal Audit are directed by the Internal Audit Annual Plan. This has been developed in line with the Public Sector Internal Audit Standards (PSIAS) and has been reviewed and approved by the Committee.

2.3 This update report provides a summary of the Internal Audit activity for the period 1st June to 31st August 2016.

3 Main issues

3.1 Updates to Audit Plan

3.1.1 The Internal Audit Plan for 2016/17 was reviewed and approved by the Committee in March 2016. This included an allocation of Internal Audit resource for the audits of Housing Leeds. Members were informed that the detailed audit plan for Housing Leeds was to be developed in quarter 1 of 2016-17 in conjunction with the senior leadership team within Environment and Housing. This has now been completed and a high level overview of the individual audits for 2016/17 is provided in the table below.

Table 1: Housing Leeds Audit Plan 2016/17

Audit	Overview of Assurance
Belle Isle TMO Assurance	To provide support to Housing Leeds in the management of the BITMO Assurance Framework.
Leeds Building Services sub-contractor payments	To assist Housing Leeds in their investigation into the current debtor balance for a contractor to determine how much of the balance can be claimed.
Tenancy Management	A review of the systems in place for managing tenancy breaches (other than rent arrears) and to provide assurance that these are managed in line with the relevant policies.
Tenant Involvement	A review of the processes in place to involve tenants in key decisions, and in the management of their properties and the

Audit	Overview of Assurance
	surrounding estates.
Planned and Programmed Maintenance	To support the service in their review of planned and programmed maintenance expenditure.
Stores	To review the effectiveness of the various store management systems in operation.
Follow Up audits	To follow up any previous limited assurance opinion audits. The scope of these audits will be to review the progress that has been made in addressing the weaknesses identified in the previous audit review.

3.2 Audit Reports Issued

3.2.1 The title of the audit reports issued during the reporting period and level of assurance provided for each review is detailed in Table 2 below. Depending on the type of audit review undertaken, an assurance opinion may be assigned for the control environment, compliance and organisational impact. The control environment opinion is the result of an assessment of the controls in place to mitigate the risk of the objectives of the system under review not being achieved. A compliance opinion provides assurance on the extent to which the controls are being complied with. Assurance opinion levels for the control environment and compliance are categorised as follows: substantial (highest level); good; acceptable; limited and no assurance.

3.2.2 Organisational impact is reported as either: major, moderate or minor. Any reports issued with a major organisational impact will be reported to the Corporate Leadership Team along with the relevant directorate's agreed action plan.

Table 2: Summary of Reports Issued 1st June to 31st August

Report Title	Audit Opinion		
	Control Environment Assurance	**Compliance Assurance**	**Organisational Impact**
Housing Leeds			
Belle Isle TMO Equality and Diversity Strategy (brought forward from 2015/16)	Good	N/A	Minor
Lettings Enforcement (brought forward from 2015/16)	Good	N/A	Minor
Customer Complaints (brought forward from 2015/16)	Good	Acceptable	Minor
Leeds Building Services Tools and Equipment (brought forward from 15/16)	Acceptable	Limited	Minor

Report Title	Audit Opinion		
	Control Environment Assurance	**Compliance Assurance**	**Organisational Impact**
Belle Isle TMO Void Management (brought forward from 2015/16)	Good	Good	Minor
Leeds Building Services Subcontractors and Quality Management Systems (brought forward from 2015/16)	Acceptable	Acceptable[1]	Minor
ICT and Information Governance			
Frameworki (Children's Services case management system) Business Application Review	Good	N/A	Minor
Key Financial Systems			
Sundry Income year end reconciliation	Substantial		N/A
Income Management System year end reconciliation	Substantial		N/A
Central Purchasing Cards (brought forward from 2015/16)	Substantial	N/A	Minor
NNDR year end reconciliation	Substantial		N/A
Council Tax year end reconciliation	Substantial		N/A
Housing Benefit/Council Tax benefit year end reconciliation	Substantial		N/A
Creditors year end reconciliation	Substantial		N/A
Payroll year end reconciliation	Substantial		N/A
Bank Reconciliation and Cashbook	Substantial	N/A	Minor
Procurement			
FMS Contract Data	Acceptable	Good	Minor
Schools			
Primary School Voluntary Fund x 2	Certification of balances		

[1] Although acceptable assurance was provided for compliance with policies and procedures overall, limited assurance was provided for one of the objectives covered as part of the review. Further information is provided at 3.3.7.

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Primary School	Good	Good	N/A
Follow Up Reviews			
Sundry Income Events	Acceptable	Acceptable	Minor
Sundry Income Lettings	Acceptable	Good	Minor
Housing Leeds Direct Labour Organisation (DLO)	Acceptable	N/A	Minor
Children's Services			
Direct Payments (brought forward from 2015/16)	Acceptable	Limited	Minor
Strategy and Resources			
Employee Declaration of Interests	Acceptable	Good	Minor
Employee Gifts and Hospitality	Good	Good	Minor
Agency Staff Payments – Interim Report	Memo issued with our interim findings and the actions required for us to complete our review		
City Development			
Planning Decisions (brought forward from 2015/16)	Substantial	Substantial	Minor
Leeds Grand Theatre			
Creditors and Payments to Visiting Companies	Good	Good	N/A
Budgetary Control	Good	N/A	N/A

3.2.3 In addition to the reports detailed in Table 2 above, the following grant certifications and audit assurances have been finalised during the reporting period:

- Local transport capital block funding grant
- Families First grant claim May 2016
- Cycling ambition grant determination
- West Yorkshire Plus transport grant

3.3 Summary of Audit Activity and Key Issues

3.3.1 During the reporting period, we have finalised 34 audit reviews (excluding continuous audit, work for external clients and fraud and irregularity work).

3.3.2 Substantial assurance has been provided for each piece of work completed in respect of the key financial systems and for the processes in place to ensure decisions for planning applications are made in accordance with legislation and Council policies. The majority of the remaining work completed resulted in good or acceptable assurances and we have not identified any issues that would necessitate direct intervention by the Corporate Governance and Audit Committee.

Limited or No Assurance Opinions

3.3.3 Of the audit reviews finalised during the period, none have resulted in a 'no assurance' opinion and the impact of any control weaknesses identified during the period has been assessed as minor for all relevant reviews.

3.3.4 The following three audited areas resulted in a limited assurance opinion overall or a limited assurance opinion for part of the audit coverage:

- Children's Services Direct Payments;
- Leeds Building Services (LBS) Tools and Equipment; and
- LBS Subcontractors and Quality Management Systems

3.3.5 The objective of the audit of direct payments within Children's Services was to assess the controls in place for ensuring that direct payments are paid accurately to eligible people. Direct payments are given to parents/carers or young people to enable them to purchase support which has been assessed as being needed. They may also be used to enable people with parental responsibility for a disabled child to pay for short breaks. Our review resulted in a limited assurance opinion for compliance with agreed policies and procedures due to the high number of errors identified in the accuracy of the payments made. The value of these errors was found to be low however, resulting in an assessment of minor organisational impact. An action plan is in place to address the weaknesses identified. Consideration is also being given to working with the Adult Social Care Direct Payments Audit Team to undertake direct payment financial audits for Children's Services.

3.3.6 The audit of LBS Tools and Equipment was undertaken at the request of management to assist in developing a cohesive approach in respect of tools and equipment for operatives. This followed the Council's two Internal Service Providers (ISPs) of direct construction work being brought together to form a single ISP. The audit found that processes required strengthening in respect of purchasing, allocating, recording and checking the tools and equipment provided for operatives within LBS. Due to these issues, it was not possible to provide assurance that all tools and equipment purchased for Council use could be accounted for.

3.3.7 The review of LBS Subcontractors and Quality Management Systems sought to obtain assurance on the procurement of subcontractors and the allocation and quality of work undertaken. An acceptable assurance opinion was provided overall, however there was a lack of evidence to confirm that Contract Procedure Rules had been followed when allocating work to subcontractors who were not on an existing framework contract.

3.3.8 Action plans have been agreed with the services to address each of the issues highlighted above. We will undertake follow up reviews in the three areas and report the progress made against these actions to the Committee at a future meeting, as detailed in the follow up tracker at Table 3 below.

Follow Up Reviews

3.3.9 Our protocols specify that we undertake a follow up review where we have previously reported 'limited' or 'no' assurance for the audited area. We have recently refreshed our reporting template to include an assurance opinion for each objective reviewed within the audited area. Follow up audits will now be undertaken for those areas where a specific objective within the review resulted in limited or no assurance in addition to those where the limited or no assurance opinion was provided for the review overall.

3.3.10 Table 3 below provides tracking information on the follow up audits due to be completed this year together with the Corporate Governance and Audit Committee meeting date that the results are due to be reported. Follow up audits that have previously been reported to the Committee where there are no outstanding issues that require further follow up work are not included within the table. Further information on the follow up audits that have been completed during this reporting period is detailed below at 3.3.11 to 3.3.15.

Table 3: Follow Up Audit Tracker

Audited area	**Follow up status (see key below table)**	**Corporate Governance and Audit Committee report reference**
Follow up results reported at the current meeting		
Housing Leeds Direct Labour Organisation	Closed	See 3.3.15
Sundry Income Events	Ongoing, improved opinion	See 3.3.13
Sundry Income Lettings	Ongoing, improved opinion	See 3.3.14
Follow up results due to be reported: January 2017 meeting		
Joint Venture	Planned	June 2016
Commissioning of external residential and	Planned	September 2015

Audited area	Follow up status (see key below table)	Corporate Governance and Audit Committee report reference
independent fostering agency placements		
Safeguarding Clients Personal Assets Central Controls (Deputy and Appointee Procedures)	In progress	July 2015
Taxi and Private Hire Licensing	In progress	March 2016
Bank Accounts: Electoral Services Account	In progress	March 2016
Administration of Client Monies	Planned	March 2016
Safeguarding Disclosure and Barring Service Checks and Health Care Professions Council	In progress	June 2016
Follow up results due to be reported: April 2017 meeting		
Kirkgate Market	Ongoing, improved opinion	June 2016
Primary School	Planned	March 2016
Spending Money Wisely Challenge – off-contract spend (four directorates)	Ongoing, recurrent limited assurance [2]	March and June 2016
Children's Services Direct Payments	Planned	See 3.3.5
LBS Tools and Equipment	Planned	See 3.3.6
LBS Subcontractors and Quality Management Systems	Planned	See 3.3.7
Sundry Income Events	Planned	See above
Sundry Income Lettings	Planned	See above

Key

Closed:	Results of follow up audit are satisfactory and no further follow up work required
In progress:	Follow up audit of original limited assurance opinion is in progress
Ongoing, improved opinion:	Follow up audit completed and overall opinion has improved. Further follow up review planned to close outstanding issues
Ongoing, recurrent limited opinion:	Follow up audit completed and overall opinion has **not** improved. Further follow up review planned to close outstanding issues
Planned:	Dates for follow up audit have been agreed and planned

[2] Limited assurance opinions provided for the four directorates reviewed. Further follow up audits are currently in progress for the four directorates originally reviewed plus three further directorates to provide cross cutting coverage. Committee has previously requested and received directorate audit reports.

3.3.11 During this reporting period we have finalised three follow up reviews, all of which have resulted in improved assurance opinions:

- Sundry Income Events
- Sundry Income Lettings
- Housing Leeds Direct Labour Organisation (DLO)

3.3.12 Limited assurance opinions were provided for the previous audits of sundry income generated by the Events Team within City Development (covering external chargeable events at Millennium Square and Victoria Gardens) and sundry income generated by the Lettings Team within Civic Enterprise. The follow up audits have now been finalised and both have resulted in improved assurance opinions as progress has been made in addressing the majority of the issues raised in the previous audit reports.

3.3.13 For Sundry Income Events, the previous audit reported a lack of formalised governance arrangements detailing how new events will be brought to Leeds, the absence of a pricing policy detailing the approach to core funded events, and no formalised charging schedule or benchmarking with other local authorities. The follow up audit found that although processes had been strengthened overall, some of the recommended actions were only partially complete. We will undertake further audit follow up work later in the year to review progress against these actions.

3.3.14 Since the previous audit of Sundry Income Lettings, the Education and Community Lettings Teams have now been brought together with the intention that best practice is shared to establish more effective, consistent working procedures and systems. The audit coverage included an assessment of the management information produced, however the suite of management information reports were being developed at the time of the audit so it was not possible to complete this audit objective. This area will be the subject of further audit follow up work later in the year.

3.3.15 The follow up review of Housing Leeds Direct Labour Organisation resulted in an improved assurance opinion as the issues that had been raised in the previous audit regarding the methodology for allocating labour costs and the access controls to the subcontractor selection system (SWAPS) had been addressed.

Procurement

3.3.16 At the June 2016 CGAC meeting, members requested that a briefing note be prepared for circulation to the Committee detailing the amount of off-contract spend by department. This note has been provided to members by the Projects, Programmes and Procurement Unit (PPPU), and includes information on arrangements in place to address off and non-contract spend.

3.3.17 During this reporting period we have issued a related audit report on arrangements in place within PPPU to ensure the integrity of the contract data held on FMS, in order to provide assurance that off and non-contract orders raised through FMS can be identified.

3.3.18 Our review provided an opinion of acceptable assurance for the control environment. In order to provide greater assurance over the integrity of FMS contract data we recommended that a regular reconciliation should be carried out to compare contract records in FMS and YORtender (the Council's tendering system). PPPU have advised that this recommendation has since been implemented.

3.3.19 A further recommendation was made to establish an approval process for new quasi contracts, which should only be recorded when the Council has no control over which supplier is used. PPPU also advised that they are intending to carry out a review of existing quasi arrangements to consider whether any opportunities for savings exist within these.

3.3.20 We provided an opinion of good assurance for compliance with the control environment, as in practice the majority of contract records held on FMS and YORtender matched. PPPU have given assurances that any differences we identified were either legitimate or have now been corrected. The recommended regular reconciliation between the two systems will enable PPPU to identify and address any future differences in contract records on an ongoing basis and therefore ensure that the information used to identify opportunities for savings is accurate and complete.

Continuous Audit

3.3.21 This cross cutting audit programme aims to evaluate control effectiveness across key systems on an ongoing basis, and highlight high risk transactions or events. The programme has been developed to initially focus on the self-serve processes that have recently been introduced by the Council. To date, we have completed testing on SAP travel and expense claims, Click Travel and purchasing card expenditure where this related to travel. No significant issues have been identified and overall, we can provide good assurance that the current self-service arrangements are working as intended.

Counter Fraud and Corruption

3.3.22 The counter fraud and corruption assurance block within the Internal Audit Plan includes both the reactive and pro-active approaches to the Council's zero tolerance to fraud and corruption across the authority.

3.3.23 During the reporting period we have received seven potential irregularity referrals. Of these, three were classified under the remit of the Whistleblowing or Raising Concerns policies. All reported irregularities were risk assessed by Internal Audit and are either being investigated by ourselves, the relevant directorate or HR colleagues, as appropriate. Of the 27 referrals received to date in the 2016/17 financial year, 17 have been closed (12 within the period June to August).

3.3.24 The proactive strand of our anti-fraud work includes data analytical work with the aim of preventing and detecting fraud, overpayment and error. We are currently working to co-ordinate action on the National Fraud Initiative (NFI) data matching exercise and continue to assess the Council's counter fraud arrangements against best practice.

3.3.25 At the previous Corporate Governance and Audit Committee meeting, the Chief Officer (Audit and Investment) submitted a report which informed the Committee of the revisions to the Anti-Money Laundering Policy. Having taken into account Corporate Governance and Audit Committee and Executive Member comments, the Chief Officer (Audit and Investment) has now taken the delegated decision to approve the revised policy prior to publication.

Internal Audit Performance

3.3.26 The Corporate Governance and Audit Committee has responsibility for monitoring the performance of Internal Audit. The information provided below in respect of our quality assurance and improvement programme provides the Committee with assurances in this area.

3.3.27 Internal Audit is committed to delivering a quality product to the highest professional standards that adds value and improves the Council's operations. We actively monitor our performance in a number of areas and encourage feedback.

3.3.28 All our work is undertaken in accordance with our quality management system and we have been ISO accredited since 1998.

3.3.29 A customer satisfaction questionnaire (CSQ) is issued with every audit report. The questionnaires ask for the auditee's opinion on a range of issues and asks for an assessment ranging from 5 (for excellent) to 1 (for poor). The results are presented as an average of the scores received for each question.

3.3.30 The results of the questionnaires are reported to the Audit Leadership Team and used to determine areas for improvement and inform the continuing personal development training programme for Internal Audit staff.

3.3.31 During the period 1st April to 31st August 2016, 17 completed Customer Satisfaction Questionnaires were received. A summary of the scores is presented in Table 4 below.

Table 4: Results from Customer Satisfaction Questionnaires for the period 1st April to 31st August 2016

Question	Average Score (out of 5)
Sufficient notice was given	4.88
Level of consultation on scope	4.71
Auditor's understanding of systems	4.53
Audit was undertaken efficiently	4.82

Question	Average Score (out of 5)
Level of consultation during the audit	4.76
Audit carried out professionally and objectively	4.94
Accuracy of draft report	4.50
Opportunity to comment on audit findings	4.88
Clarity and conciseness of final report	4.67
Prompt issue of final report	4.53
Audit recommendations will improve control	4.62
The audit was constructive added value	4.59
Overall Average Score	**4.70**

3.3.32 Table 5 below provides a broad indication of progress against the Internal Audit Plan for 2016/17. The number of audits planned and delivered during the year will increase as the blocks of time allocated for areas of work (such as contract reviews and schools) are broken down to specific audit assignments and to address emerging issues through the use of contingency time. The table does not include fraud and irregularity work or advice issued to managers arising from adhoc requests for audit support.

Table 5: Audit Plan 2016/17 Progress

Number of individual audit assignments	Planned	In progress	Completed
Audit Plan 2016/17	54	15	22
Follow up audits[3]	17	4	3

3.3.33 Current levels of resources within Internal Audit are sufficient to ensure that an evidence-based Head of Internal Audit opinion can be provided on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control in accordance with the Public Sector Internal Audit Standards.

3.3.34 The Public Sector Internal Audit Standards require that an external assessment of the Internal Audit function should be carried out at least once every five years. The Terms of Reference for this assessment were reviewed and approved by the Corporate Governance and Audit Committee at the last meeting. The external assessment is due to be undertaken in October 2016 and the results of the review are due to be reported to the Committee at the meeting in January 2017.

[3] This includes seven Spending Money Wisely (off-contract spend) reviews

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report did not highlight any consultation and engagement considerations.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 This report does not highlight any issues regarding equality, diversity, cohesion and integration.

4.3 Council policies and Best Council Plan

4.3.1 The terms of reference of the Corporate Governance and Audit Committee require the Committee to review the adequacy of the Council's corporate governance arrangements. This report forms part of the suite of assurances that provides this evidence to the Committee. The Internal Audit Plan has links with each of the Council's strategic objectives and has close links with the Council's value of spending money wisely.

4.4 Resources and value for money

4.4.1 The Internal Audit Plan includes a number of reviews that evaluate the effectiveness of financial governance, risk management and internal control arrangements that contribute towards the Council's value of spending money wisely.

4.4.2 The Internal Audit Quality Assurance and Improvement Programme and service development work that is reported to the Committee demonstrates a commitment to continuous improvement in respect of efficiency and effectiveness.

4.5 Legal Implications, Access to Information and Call In

4.5.1 None.

4.6 Risk Management

4.6.1 The Internal Audit Plan has been and will continue to be subject to constant review throughout the financial year to ensure that audit resources are prioritised and directed towards the areas of highest risk. This process incorporates a review of information from a number of sources, one of these being the corporate risk register.

4.6.2 The risks relating to the achievement of the Internal Audit Plan are managed through ongoing monitoring of performance and resource levels. This information is reported to the Committee.

5 Conclusions

5.1 There are no issues identified by Internal Audit in the June to August 2016 Internal Audit Update Report that would necessitate direct intervention by the Corporate Governance and Audit Committee.

6 Recommendations

6.1 The Corporate Governance and Audit Committee is asked to receive the Internal Audit Update Report covering the period from June to August 2016 and note the work undertaken by Internal Audit during the period covered by the report.

7 Background documents

7.1 None.

Report author: A Hodson
Tel: (0113) 224 3208

Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 16th September 2016

Subject: Work Programme

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☒ No
Is the decision eligible for Call-In?	☐ Yes	☒ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ No

1 Purpose of this report

1.1 The Purpose of this report is to notify Members of the Committee of the draft work programme for the 2016/17 year. The draft work programme is attached at Appendix 1.

2 Background information

2.1 The work programme provides information about the future items for the Corporate Governance and Audit Committee agenda, when items will be presented and which officer will be responsible for the item.

3 Main issues

3.1 Members are requested to consider the draft work programme attached at Appendix 1 and determine whether any additional items need to be added to the work programme.

3.2 Members are asked to consider and note the provisional dates for meetings of the Committee in the 2016/17municipal year; these have been set out in such a way as to enable the Committee to fulfil its functions and responsibilities in a reasonable and proportionate way.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report consults seeks Members views on the content of the work programme of the Committee, so that it might meet the responsibilities set out in the committee's terms of reference.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 There are no equality and diversity or cohesion and integration issues arising from this report.

4.3 Council Policies and City Priorities

4.3.1 The work programme provides a balanced number of reports and assurances upon which the committee can assess the adequacy of the council's corporate governance arrangements.

4.4 Resources and Value for Money

4.4.1 It is in the best interests of the Council to have sound control arrangements in place to ensure effective use of resources, these should be regularly reviewed and monitored as such the work programme directly contributes to this.

4.5 Legal Implications, Access to Information and Call In

4.5.1 This report is not an executive function and is not subject to call in.

4.6 Risk Management

4.6.1 By the Committee being assured that effective controls are in place throughout the Council the work programme promotes the management of risk at the Council.

4.6.2 The work programme adopts a risk based approach to the significant governance arrangements of the Council.

5 Conclusions

5.1 The work programme of the Committee should be reviewed regularly and be updated appropriately in line with the risks currently facing the Council.

6 Recommendations

6.1 Members are requested to consider the work programme attached at Appendix 1 and determine whether any additional items need to be added to the work programme.

Appendix 1

CORPORATE GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

27th January 2017		
KPMG – Annual Audit Letter – including opinion	To receive a report certifying grants and returns and to consider the Audit Fee letter.	Neil Warren (Head of Corporate Finance)
KPMG – Certification of Grant Claims and Returns	To receive a report certifying grants and returns and to consider the Audit Fee letter.	Neil Warren (Head of Corporate Finance)
KPMG – Approval of External Audit Plan	To receive a report requesting approval of the external audit plan	Neil Warren (Head of Corporate Finance)
Customer Contact and Satisfaction Annual Report	To receive the annual customer contact and satisfaction annual report	Lee Hemsworth Chief Officer (Customer Access)
Internal Audit Update Report	To receive the Internal Audit quarterly report	Sonya McDonald Acting Head Of Internal Audit
Treasury Management Annual Report	To receive the annually Treasury Management Report providing assurance on the processes used by the department	Neil Warren (Head of Corporate Finance)
Internal Audit Peer Review	To receive a report detailing the outcome of the Internal Audit Peer Review undertaken By Nottingham City Council	Tim Pouncey Chief Officer (Audit & Investment)

CORPORATE GOVERNANCE AND AUDIT COMMITTEE
WORK PROGRAMME

7th April 2017		
Internal Audit Plan	To receive a report informing the Committee of the Internal Audit Plan for 2013/14	Sonya McDonald Acting Head Of Internal Audit
Internal Audit Update Report	To receive the Internal Audit quarterly report	Sonya McDonald Acting Head Of Internal Audit
Information Governance Annual Report	To receive a report on the Council's Information Governance arrangements.	Dylan Roberts, Chief Digital Officer
Annual Business Continuity Report	To receive the annual report reviewing the Councils Business Continuity planning.	Mariana Pexton (Chief Officer Strategy and Improvement)
Annual Financial Management Report (Incorporating Capital) 2016/17	To receive the annual report reviewing the Financial Planning and Management Arrangements at the Council	Neil Warren (Head of Corporate Finance)