Leicestershire County Council

*Meeting:* **Constitution Committee**

*Date/Time:* **Tuesday, 27 September 2016 at 1.00 pm**

*Location:* **Goscote Committee Room, County Hall, Glenfield**

*Contact:* **Mr E. Walters (Tel: 0116 305 6016)**

*Email:* **Euan.Walters@leics.gov.uk**

## Membership

Mr. N. J. Rushton CC (Chairman)

| | |
|---|---|
| Dr. R. K. A. Feltham CC | Mr. J. B. Rhodes CC |
| Mr. S. J. Galton CC | Mr. R. Sharp CC |

## AGENDA

| Item | | Report by | |
|---|---|---|---|
| 1. | Minutes of the meeting held on 16 September 2016. | | (Pages 3 - 4) |
| 2. | Question Time. | | |
| 3. | Questions asked under Standing Order 7(3) and 7(5). | | |
| 4. | To advise of any other items which the Chairman has decided to take as urgent. | | |
| 5. | Declarations of interest. | | |
| 6. | Any other items which the Chairman has decided to take as urgent. | | |
| 7. | Statement of Accounts and Annual Governance Statement 2015/16. | | (Pages 5 - 204) |

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# Agenda Item 1

Minutes of a meeting of the Constitution Committee held at County Hall, Glenfield on Friday, 16 September 2016.

PRESENT

Mr. N. J. Rushton CC (in the Chair)

| | |
|---|---|
| Dr. R. K. A. Feltham CC | Mr. J. B. Rhodes CC |
| Mr. S. J. Galton CC | Mr. R. Sharp CC |

47. Appointment of Chairman.

That Mr N. J. Rushton CC be elected Chairman for the period ending with the date of the Annual Meeting of the County Council in 2017.

Mr N. J. Rushton CC – in the Chair

48. Election of Deputy Chairman.

That Mr. J. B. Rhodes CC be appointed Deputy Chairman for the period ending with the Annual Meeting of the County Council in 2017.

49. Minutes of the previous meeting.

The minutes of the meeting held on 8 January 2016 were taken as read, confirmed and signed.

50. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 35.

51. Questions asked under Standing Order 7(3) and 7(5).

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

52. Urgent Items.

There were no urgent items for consideration.

53. Declarations of interest.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

No declarations were made.

54. Review and Revision of the Constitution.

The Committee considered a report of the Chief Executive which recommended changes to the Constitution. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

RESOLVED:

That the County Council be recommended to approve the proposed changes to the Constitution as set out in Appendix 1 to the report.

55. Appointment of Independent Persons.

The Committee considered a report of the Chief Executive regarding the appointment of Independent Persons to support the Member Conduct Complaints Process. A copy of the report, marked 'Agenda Item 9', is filed with these minutes.

RESOLVED:

That the Committee:

(a) Recommends the County Council appoint Mr Surrinder Sharma, Mr Gordon Grimes, Mrs Jayne Kelly, Professor David Bonner and Mr Michael Pearson to serve as Independent Persons for a term of four years ending on 30 September, 2020;

(b) Supports the proposals for payment to the independent persons on a daily rate basis in line with allowances paid for jury service.

1.30 - 1.35pm CHAIRMAN
16 September 2016

Leicestershire County Council

# CONSTITUTION COMMITTEE – 27th SEPTEMBER 2016

# REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

# STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT 2015/16

## PURPOSE

1. The purpose of this report is to:

   a) present the 2015/16 Statement of Accounts, attached as Appendix A to this report, for approval and signing by the Leader of the County Council,
   b) inform the Committee of the main areas of the accounts, and
   c) report the key findings from the external audit of the accounts.

## BACKGROUND

2. The Accounts and Audit Regulations 2015 require authorities to approve and publish their accounts, including the auditor's opinion by the end of September following the end of the financial year.

3. A copy of our external auditor's, KPMG LLP, report on the accounts is attached as Appendix B. The letter of representation is attached as Appendix C. The auditor anticipates issuing an unqualified audit opinion.

4. The Corporate Governance Committee will consider the auditor's report at its meeting on 23 September 2016. The auditor is required to communicate the results of the audit to those charged with governance prior to certifying the financial statements. The minutes from that meeting will be reported to the Constitution Committee.

5. The Statement of Accounts is prepared under the International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounts.

## STATEMENT OF ACCOUNTS

6. The main areas of the financial statements are set out below:

**Narrative Statement**

7. This is a new statement from 2015/16 and replaces the Explanatory Foreword. The purpose of the Narrative Statement is to offer interested parties an effective guide to the most significant matters reported in the accounts. It includes a summary of the economy, efficiency and effectiveness, and the financial and non-financial performance of the Authority, and an explanation of the contents of the accounts.

**Movement in Reserves Statement (MIRS)**

8. This statement shows the movement in year on the different reserves held by the County Council, analysed into 'usable reserves' i.e. those that can be applied to fund expenditure and 'unusable reserves' which cannot be used to fund services. Unusable reserves include reserves that hold unrealised gains and losses as well as adjustments for the differences between amounts charged in accordance with accounting standards and amounts charged for statutory purposes. An example is the short term accumulating compensated absences adjustment account (STACAAA). This account holds the estimated value of untaken annual leave and time-off-in-lieu as at the balance sheet date. This charge is recognised by the accounting standards but statutory mitigation allows it to be reversed out via the STACAAA to avoid it being a charge to the general fund.

9. The main usable reserves held are the General Fund and Earmarked Funds.

10. The General Fund totalled £40.4m as at 31 March 2016 (£27.2m 31 March 2015). The fund contains delegated funding for schools, carry forwards of previous year underspends and the uncommitted fund of the Council, (explained further in the next paragraph). Details of the fund are shown in note 9 to the accounts. The increase as at 31 March 2016 related to an increase in carry forwards, arising from the 2015/16 underspend (£13.8m) reported in the narrative statement, and an increase in delegated school balances to £11.8m (£7.6m 31 March 2015).

11. The uncommitted fund is available for unforeseen risks to the Council. It allows the Council to manage unforeseen financial events without the need to make immediate offsetting savings, with the potential real impact on County Council services. The balance at 31 March 2016 was £14.8m (£14.9m 31 March 2015). The Council's policy is to hold a balance in the range of 4% to 5% of net budgeted expenditure (excluding schools). The balance of £14.8m represents 4.3% of net budgeted expenditure for 2016/17.

12. Earmarked funds, excluding dedicated schools grant, total £85.3m as at 31 March 2016 (£92.5m 31 March 2015).

13. The significant earmarked funds held are:

- Capital Financing £20.1m. This fund is used to hold revenue contributions to fund capital expenditure in future years including the Street Lighting LED replacement project included in the 2016-20 capital programme. The amount shown in the accounts, in note 10, is £5.1m which is after the £15m investment in Pooled Property Funds. The investment is temporarily shown against the capital financing fund but in effect is funded from the overall balance of earmarked funds and can be realised in the future when required.

- Insurance Funds £19.2m. Held to meet future claims, or parts of claims, that are not covered by insurance policies. This could be due to policy limits and deductibles or claims relating to periods when the insurer has failed, such as Municipal Mutual Insurance or The Independent Insurance Company. The levels are reviewed by independent advisors.

- Transformation £16.5m. Funding set aside to invest in transformation projects to achieve efficiency savings and service improvements across the County Council and to fund potential restructuring costs of reconfiguring those services. The amount shown in note 10 to the accounts is a net balance of £8.1m. This is after the temporary investment of £8.4m in the Local Authority Mortgage scheme (LAMS). A total of £8.4m (£3m in 2013/14 and £5.4m 2012/13) has been advanced to Lloyds Bank temporarily funded from the overall balance of earmarked funds. The funding will be returned to the County Council in 2017/18 and 2018/19, five years respectively after the date it was advanced.

- Adults and Communities Developments £6.9m. This earmarked fund is held to meet a number of investments in maintaining social care levels and assisting the department in achieving its transformation programme. The fund also includes £2.5m from an underspend on Care Act grant funding in 2015/16, following the Government's announcement in July 2015 to delay the introduction of the cap on care costs until April 2020. This funding will be used to temporarily fund staffing resources and contracts, that were engaged for the Care Act, to allow time for a smooth transition.

- Broadband £6.1m. Funding held to develop super-fast broadband to areas with poor service within Leicestershire. A contract has been entered into with British Telecom and they have completed a significant amount of work. There is a time lag in spending County Council funds due to grant conditions that require Central Government and European funding to be spent within a set period. The majority of funding is expected to be spent by the end of 2017/18 as phase 2 of the programme is completed.

14. The required level of earmarked funds is kept under review during the year. Formal assessments are undertaken and reported during the Autumn, in January and February as part of the Medium Term Financial Strategy (MTFS) and also at year end.

**<u>Comprehensive Income and Expenditure Statement (CIES)</u>**

15. The CIES shows the accounting cost of providing services in accordance with accounting standards rather than the amount funded from taxation and income. The County Council raises taxation to cover expenditure in accordance with statutory regulations which can be different from the accounting cost.

16. The headings used in the CIES are presented in line with the Chartered Institute for Public Finance and Accountancy (CIPFA) service reporting code of practice. This ensures consistency and comparability across local authorities and is not comparable to the format of the County Council budget.

17. The CIES cannot be directly compared to the outturn underspend reported to members. This is because the financial accounts comply with various reporting standards whereas the management accounts are compiled on a slightly different basis. The key differences relate to the way depreciation, impairment and earmarked funds are reported.

18. The CIES shows a surplus of £14.6m on the Provision of Services for 2015/16 (£74.8m deficit 2014/15). The deficit in 2014/15 was primarily due to the conversion of 21 schools to Academy status during that year. During 2015/16 five schools transferred. The buildings have been transferred as 125 year finance leases that require the assets to be written out of the County Council's accounts through the Other Operating Expenditure section of the CIES, and Balance Sheet.

19. The Narrative Statement on page 3 of the Statement of Accounts explains the net outturn position in the context of the County Council's budget. In summary, this shows a gross underspend of £13.8m (after movements to earmarked funds and excluding schools grant) and was used to fund carry forwards to 2016/17.

**Balance Sheet**

20. The Balance Sheet shows the value of the assets and liabilities recognised by the County Council as at 31 March 2016. This shows that the County Council has net assets of £237.4m, compared with net liabilities of £36.7m as at 31 March 2015. The principal reasons are an increase in the Property, Plant and Equipment, due to capital improvements during the year (capital programme) and a reduction in the net pension fund liability (£207.3m), which is explained below.

21. The net position on the pension fund is a deficit of £523.7m and is shown in more detail in note 14 to the accounts. The position has improved since the previous year (£731.0m deficit). The principal reason is that the discount rate used to value future liabilities has increased, which has the impact of reducing the current value of liabilities. The accounting standards require the discount rate used to be equivalent to the market yields on high quality corporate bonds as at 31 March 16. The discount rate used was 3.5%. (3.2% 31 March 2015). Investment returns over the year were negligible and there was little change to the value of assets.

22. The pension fund balance represents all pension entitlements that have been earned to date but which are not yet in payment and has a substantial impact on the net position of the balance sheet. However, statutory arrangements will result in the deficit being made good through increased contributions by the employer, over the remaining working life of employees, as assessed by the pension fund scheme's Actuary. The County Council has agreed a strategy with the Actuary to achieve a funding level of 100% over the next 20 years.

23. The Balance Sheet also shows short and long term provisions totalling £8.1m (£9.0m 2014/15). Provisions are held to fund liabilities of uncertain timing or amount and are shown in greater detail in note 25 to the accounts. The main provision held is for Insurance, £4.7m. This provision represents the estimated value of outstanding unsettled claims at 31 March 2016.

24. The capital receipts fund totals £11.0m (£14.0m 31 March 2015). This fund holds the proceeds from the sale of non-current assets that have not yet been applied to fund new capital expenditure. The funding will be carried forward to 2016/17 (and later years) to fund slippage from the 2015/16 capital programme and to fund the approved 2016-20 capital programme.

25. Cash and cash equivalents have reduced to £43.0m as at 31 March 2016 (£92.3m 31 March 2015). Cash equivalents are highly liquid investments that mature within 3 months or less from the date of acquisition, shown in note 22 to the accounts. Conversely, short term investments (greater than 3 months maturity) have increased to £142.4m as at 31 March 2016 (£80.7m 31 March 2015).

26. During 2015/16 the County Council continued its policy to reduce debt by making a voluntary additional minimum revenue provision (MRP) contribution of £2.9m. This has the effect of reducing the capital financing requirement (CFR) as shown in note 40 to the accounts, which stands at £283.6m. The CFR is a measure of capital expenditure incurred historically that has yet to be financed. Actual debt at the balance sheet was £275.1m. The difference between this and the CFR is the temporary use of working cash balances held by the Council and is sometimes referred to as internal indebtedness.

**Annual Governance Statement**

27. The Statement of Accounts is accompanied by the Annual Governance Statement (AGS) signed by the Chief Executive and Leader of the County Council. The statement sets out the purpose of the system of internal control, how it operates in the County Council and how its effectiveness has been reviewed. The AGS will be considered by the Corporate Governance Committee on 23 September 2016.

**Pension Fund Accounts**

28. The Statement of Accounts includes the County Council's pension fund accounts.

29. The last available triennial actuarial valuation of the pension fund showed that at 31 March 2013 the fund's assets covered approximately 72% of the liabilities accrued up to that date. This funding level was a decrease on the 80% position of the 2010 valuation and this was primarily due to the lower-than-expected investment returns achieved in the three year period. This underperformance put significant upward pressure onto the contribution rates of employing bodies but these were contained somewhat for tax raising bodies by using a smoothing mechanism and by the use of a 20 year deficit-spreading period. The results of the 31 March 2016 valuation will be known later in 2016.

30. To ensure that the fund remains financially sound to meet benefit payments, the Actuary will recommend the rate of employer contributions on an individual employer basis for each employing body in the fund for a three year period. In 2015/16 the average employer rate was 21.3% of pay (20.3% 2014/15).

## Key Findings of the External Auditor

31. The external auditor has reviewed the Statement of Accounts and Pension Fund Accounts and has concluded that there are no material accounting issues. The external auditor anticipates issuing an unqualified opinion.

32. There was one accounting adjustment to the Statement of Accounts as a result of the external audit. During 2015/16 a school academy lease was surrendered and therefore the building should have been brought back on to the balance sheet. The finance team were not aware of the lease surrender resulting in the incorrect accounting treatment of subsequent capital expenditure. The adjustment made added £2.8m to the Property, Plant and Equipment heading in the balance sheet. The Council will implement a formal process to ensure that the finance team are made aware of all lease surrenders.

33. The auditor has also raised a recommendation to consider implementing a formal review process for journal approvals, either through automated authorisation processes built into the accounting system, Oracle, or a management review based on materiality. Currently while there is segregation between journal creation and journal posting, except for certain members of the technical accounting team who can create and post journal entries, there is no formal review process of journals in place. The Head of Finance has started a review of journal authorisation and the potential to use Oracle to automate this process. The assessment will be completed by 31 December 2016 with the implementation plan to follow the assessment.

## RECOMMENDATION

34. The Committee is recommended to approve the Statement of Accounts for 2015/16.

## BACKGROUND PAPERS

Provisional revenue and capital outturn, Cabinet 17 June 2016
http://politics.leics.gov.uk/documents/s119853/Final%202015-16%20provisional%20outturn%20Cabinet%20report.pdf

Provisional revenue and capital outturn, Scrutiny Commission 13 July 2016.
http://politics.leics.gov.uk/documents/s120635/2015-16%20provisional%20outturn%20SC%20report.pdf

## CIRCULATION UNDER THE LOCAL ISSUES ALERT PROCEDURE

None.

## EQUALITY AND HUMAN RIGHTS IMPLICATIONS

None.

**APPENDICES**

Appendix A – Statement Of Accounts 2015/16
Appendix B – External Auditors Report
Appendix C – Letter of Representation

**OFFICERS TO CONTACT**

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## Contents



Copies of the Statement of Accounts and Annual Governance Statement, and a large print version, are available from the Corporate Resources Department, Leicestershire County Council, County Hall, Glenfield, Leicester LE3 8RB. Tel: Leicester (0116) 3057805. Alternatively, the accounts can be viewed on the County Council's website by visiting http://www.leicestershire.gov.uk/

# Narrative Statement

### *Introduction*

This document sets out the published Statement of Accounts and Annual Governance Statement of the Authority for 2015/16. The Narrative Statement provides a summary of the overall financial performance of the Authority for 2015/16, the future prospects for the Authority and explains the purpose of the financial statements that are contained within the accounts.

### *Economy, Efficiency and Effectiveness*

Pressures, such as an ageing demographic and population growth, continue to increase demand on services. Significant growth is expected in demand for adult social care, children's services and waste disposal over the next four years. This growth is in stark contrast to significant cuts in Government funding as a result of ongoing austerity measures. The Authority continues to adopt a proactive approach to managing these demands. This has involved the establishment of a comprehensive Transformation Program tasked to achieve economy in the use of resources and a rolling program of budget reductions.

The Authority's Medium Term Financial Strategy (MTFS) continues to identify the significant budget reductions needed to achieve a balanced budget. Savings of £58.8m are forecast to be made over the next four years, 2016-2020, with £26.7m to be achieved in 2016/17. This is a challenging task considering that savings of £100m have already been achieved in the last five years.

Considerable savings have been achieved to date through service reductions and efficiencies. Significant innovations have been achieved including the launch of a new external website, smarter use of office space and greater collaboration with health care partners.

### *Financial Performance*

In February 2015 the Authority approved a net revenue budget for 2015/16 of £349.0m (2014/15 £352.2m). In addition £4.7m of the 2014/15 underspending was carried forward and added to the budget. The final outturn position for the year against the revised budget is set out in the table below together with the sources of income from which the Authority's net revenue expenditure was financed.

| **2015/16** | **Budget** | **Outturn** | **Variance** | **Carry forwards** | **Variance** |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| Children & Family Services | 58.5 | 61.0 | 2.5 | 0.0 | 2.5 |
| Adults & Communities | 136.1 | 129.7 | (6.4) | 0.9 | (5.5) |
| Public Health | (1.7) | (1.0) | 0.7 | 0.0 | 0.7 |
| Environment & Transport | 71.4 | 71.3 | (0.1) | 0.1 | 0.0 |
| Chief Executives | 10.3 | 9.5 | (0.8) | 0.0 | (0.8) |
| Corporate Resources | 35.0 | 34.1 | (0.9) | 0.9 | 0.0 |
| Contingencies | 9.3 | 0.3 | (9.0) | 0.9 | (8.1) |
| Central Items | 35.8 | 31.8 | (4.0) | 0.0 | (4.0) |
| Contribution from Earmarked Funds | (1.0) | (1.0) | 0.0 | 0.0 | 0.0 |
| Approved additional commitments | 0.0 | 5.6 | 5.6 | 11.0 | 16.6 |
| | 353.7 | 341.3 | (12.4) | 13.8 | 1.4 |
| Funded by: | | | | | |
| Revenue Support Grant | (56.2) | (56.2) | 0.0 | 0.0 | 0.0 |
| Business Rates | (57.0) | (58.4) | (1.4) | 0.0 | (1.4) |
| Council Tax | (235.8) | (235.8) | 0.0 | 0.0 | 0.0 |
| Carry forwards from 2014/15 | (4.7) | (4.7) | 0.0 | 0.0 | 0.0 |
| | (353.7) | (355.1) | (1.4) | 0.0 | (1.4) |
| NET OUTTURN | **0.0** | **(13.8)** | **(13.8)** | **13.8** | **0.0** |

| 2014/15 | Budget | Outturn | Variance | Carry forwards | Variance |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Children & Family Services | 61.0 | 58.3 | (2.7) | 2.5 | (0.2) |
| Adults & Communities | 136.1 | 137.6 | 1.5 | 0.0 | 1.5 |
| Public Health | 0.0 | (1.9) | (1.9) | 0.0 | (1.9) |
| Environment & Transport | 78.2 | 76.7 | (1.5) | 0.6 | (0.9) |
| Chief Executives | 11.6 | 10.8 | (0.8) | 0.0 | (0.8) |
| Corporate Resources | 36.4 | 35.6 | (0.8) | 0.3 | (0.5) |
| Contingencies etc. | 9.8 | 4.9 | (4.9) | 0.6 | (4.3) |
| Central Items | 27.0 | 23.1 | (3.9) | 0.7 | (3.2) |
| Contribution from Earmarked Funds | (3.2) | (3.2) | 0.0 | 0.0 | 0.0 |
| Approved repayment of debt | 0.0 | 1.1 | 1.1 | 0.0 | 1.1 |
| Approved additional commitments | 0.0 | 10.9 | 10.9 | 0.0 | 10.9 |
| | 356.9 | 353.9 | (3.0) | 4.7 | 1.7 |
| Funded by: | | | | | |
| Revenue Support Grant | (70.7) | (70.7) | 0.0 | 0.0 | 0.0 |
| Business Rates | (55.1) | (56.8) | (1.7) | 0.0 | (1.7) |
| Council Tax | (226.4) | (226.4) | 0.0 | 0.0 | 0.0 |
| Carry forwards from 2013/14 | (4.7) | (4.7) | 0.0 | 0.0 | 0.0 |
| | (356.9) | (358.6) | (1.7) | 0.0 | (1.7) |
| NET OUTTURN | **0.0** | **(4.7)** | **(4.7)** | **4.7** | **0.0** |

### *Review of the Year - Income and Expenditure*

In overall terms the Authority underspent against the updated budget by £13.8m, which is offset by carry forwards. The significant underspends against the budget are set out as follows:

### *Underspends*

**Adults and Communities (£6.4m gross, £5.5m net)**

The main underspends relate to the early achievement of savings projects. The Early Intervention and Prevention and in-house provider service budget have generated significant underspends (£2.9m) in advance of the savings required in 2016/17. Other significant savings include £2.1m on community care, mainly relating to an underspend on cash payments following a review of care packages and lower than expected growth, £1.0m for supported living service primarily due to changes in the 'Ordinary Residence' rules and £0.9m on reablement due to difficulties in recruiting staff to these roles. These underspends are partly offset by an overspend on residential care services due to a delay in achieving savings.

**Environment and Transport (£0.1m gross, £0.0m net)**

The main underspends include flood alleviation schemes, highways maintenance, concessionary travel, mainstream school transport and a net underspend on waste budgets. These were offset by overspends, mainly relating to a reduced contribution from Leicestershire Highways Operations, safety maintenance, special educational needs transport and social care transport.

**Chief Executives (£0.8m, gross and net)**

This underspend mainly relates to staff vacancies and increased income.

**Corporate Resources (£0.9m gross, £0.0m net)**

Underspends mainly relate to staff vacancies, increased income and contingencies no longer being required.

**Contingencies (£9.0m gross, £8.1m net)**

The original budget also included a contingency of £8.4m for inflation, the vast majority of which has been fully allocated to departments for pay awards, inflation on premises, ICT, waste budgets, the Adults and Communities fee review and for several other minor items. The remaining balance of £0.9m has been carried forward to 2016/17, as there are a number of significant inflation risks in the forthcoming year, including the introduction of the National Living wage and a major increase in National Insurance contributions.

The original budget included a contingency of £8m against delays in the achievement of savings. No major problems have been identified, other than the net overspend on Children and Family Services, which have been absorbed by net underspends on other services. The contingency is therefore unspent.

**Central Items (£4.0m, gross and net)**

The main underspends relate to:

- Bank and other interest (£0.9m), due to balances being higher than anticipated and changes to the lending counterparty list, which provided more flexibility in managing the portfolio and led to a higher average interest rate. Additional interest has also been achieved due to the Authority's investment of £15m in pooled property funds during 2015/16.

- Financing of capital (£0.7m), due to the Authority's strategy to take opportunities to utilise one-off revenue balances and earmarked reserves to make voluntary payments on the Minimum Revenue Provision to reduce debt.

- Prior year adjustments (£1.5m), mainly relating to a detailed review of prior year open purchase orders that are no longer being required and the release of a provision for mental health refunds no longer required.

- Business Rates (£1.4m). The "local share" of business rates was £0.5m higher than the estimate included in the original budget. Section 31 Grants, which compensate Authorities for reductions in Business Rates income due to Government policy decisions, were £0.9m higher than anticipated in the original budget.

***Overspends***

**Children and Family Services (£2.5m, gross and net)**

The overspend mainly relates to pressures on the Social Care Placements budget, which incurred a £4.6m overspend. Over the past 12 months there has been a significant increase in the number of 12-15 year olds with complex needs coming to the Children and Family Services Department's attention. Despite increased referrals to Early Help a proportion of these 12 -15 year olds have required high cost responses to address their particular needs, including challenging behaviour, severe emotional distress and/or sexual exploitation. Actions have been taken to reduce the cost and number of placements. The overspend was partially offset by the early generation of 2016/17 savings in Early Help and savings in other areas.

There has been a net overspend of £4.1m on services funded from the Dedicated Schools Grant (DSG). This is the first year an overspend on DSG has been recorded. The overspend mainly relates to an increase in the demand and cost of placements for children and young people with Special Educational Needs which are funded from the DSG earmarked reserve. Actions have been taken to reduce SEN costs.

**Public Health (£0.7m, gross and net)**

The Government reduced the ring-fenced Public Health grant for the Authority by £1.6m during the financial year, as part of debt and deficit reduction proposals announced by the Chancellor of the Exchequer in June 2015. Further reductions are anticipated in subsequent years.

In preparation for this a thorough review of spending has been undertaken. Whilst savings were made in several areas of the Public Health budget, the whole of the 2015/16 grant reduction could not be absorbed by the Service in that financial year. The Departmental budget has received growth of £2.2m in 2016/17 to offset the grant reductions.

***Additional Commitments***

Additional commitments of £5.6m were approved by Cabinet to fund one off investments in highways maintenance, advanced design for highways infrastructure assets and the replacement of aged and leased vehicles used by the Authority.

### Difference between the Budget and the Comprehensive income and Expenditure Statement

Readers of the accounts should note that the reported underspend in the narrative statement cannot be directly compared to that reported in the Comprehensive Income and Expenditure Statement. This is because the financial accounts comply with various reporting standards whereas the management accounts are compiled on a slightly different basis. The key differences relate to the way in which depreciation, impairment, reserves, provisions and carry forwards are reported.

### Review of the Year – Capital

In 2015/16 the Authority spent £87.0m on capital projects (£52.3m in 2014/15). The following table shows the main areas of expenditure.

| Department | 2015/16 Outturn £m | 2014/15 Outturn £m |
|---|---|---|
| Children & Family Services | 31.4 | 10.9 |
| Adults and Communities | 3.1 | 1.8 |
| Environment and Transportation - Transportation | 40.0 | 30.0 |
| Environment and Transportation - Waste Management | 0.3 | 0.4 |
| Chief Executive (Rural Broadband Scheme) | 3.3 | 4.8 |
| Corporate Resources (ICT, County Farms) | 3.4 | 2.2 |
| Corporate Programme | 5.5 | 2.2 |
| **Total** | **87.0** | 52.3 |

The above expenditure was financed through several sources, the details of which appear in note 40 to the financial statements.

The most significant items of expenditure are set out below. Some of these projects represent work in progress and will be completed within the next two years.

| | £m |
|---|---|
| ***Children and Family Services*** | |
| School Accommodation – additional places | 23.0 |
| Strategic Capital Maintenance | 3.2 |
| | |
| ***Adults and Communities*** | |
| Extracare Scheme Loughborough – provision of 60 units | 0.5 |
| | |
| ***Environment & Transportation*** | |
| Roads and Carriageways | 10.5 |
| M1 Bridge | 8.0 |
| Leicester North West Project | 7.1 |
| Hinckley Area Project | 3.3 |
| Bridge Maintenance | 1.6 |
| M1 Junction 22 | 1.3 |
| Fleet Renewal | 1.2 |
| Footways and Rights of Way | 1.2 |
| Flood Alleviation | 0.4 |
| | |
| ***Chief Executives*** | |
| Rural Broadband Scheme – Phase 1 | 3.1 |
| | |
| ***Corporate Resources*** | |
| Virtual Desktop Integration (VDI) | 2.3 |
| ICT - Infrastructure | 0.5 |
| | |
| ***Corporate Programme*** | |
| Energy Strategy – Biomass Boiler, Solar Panels | 1.6 |
| Refurbishment of Anstey Frith House | 0.7 |

### *Current Borrowing / Investments*

The capital financing requirement (CFR) shown in note 40 to the financial statements measures the Authority's need to borrow for capital purposes. The total of non current assets at the Balance Sheet date was £905.6m (2014/15 £854.5m). The CFR was £283.6m (2014/15 £298.5m) and actual debt was £275.1m (£286.7m). The difference between the CFR and the actual debt is the temporary use of working cash balances held by the Authority. During 2015/16, one maturity loan of £10.0m was repaid to the Public Works Loans Board (PWLB) (2014/15 one maturity loan of £7.5m repaid to PWLB). Details of the loans held by the Authority are shown in note 45 to the financial statements. The level of capital borrowing is within the Authority's 2015/16 Prudential Indicators that inform the Authority whether its capital investment plans are affordable, prudent and sustainable.

Investments made by the Authority total £156.5m as at 31 March 2016 (2014/15 £80.7m). Investments are made in accordance with the Annual Investment Strategy that ensures that deposits are only made with financial institutions that meet certain minimum credit criteria as laid down by the Authority's Treasury Management advisors. During 2015/16 the Authority invested £15m of earmarked reserves in Pooled Property funds. This investment comprised of £7.5m each into two UK pooled property funds (Lothbury Property Trust and Hermes Property Unit Trust). In effect this has moved £15m from earning 0.5% p.a. to circa.3.5% p.a. in income.

### *Academy Schools*

During 2015/16 five schools transferred to Academy Status resulting in a net book value of £13.4m (2014/15 twenty one schools at £59.8m) being written out of the Authority's Balance Sheet through the Other Operating Expenditure section of the Comprehensive Income and Expenditure Statement. These entries are reversed out via the Movement in Reserves Statement and do not have an impact on the General County Fund. The Authority has no choice in whether to transfer these assets and does not receive any consideration for their transfer. Further transfers of schools to Academy Status are expected in 2016/17 and later years.

### *Local Government Pension Scheme*

The Authority participates in the Local Government Pension Scheme (LGPS) for the majority of its non-teaching employees (who are members of the Department for Education Teachers Pension Scheme). The net pension liability for the Authority £524m as at 31 March 2016 (£731m as at 31 March 2015). The position has improved mainly due to a reduction in liabilities as a result of an increase in the net discount rate over this period and a reduction in the assumptions used for future inflation rates and salary increases. The discount rate is the main contributor and is used to place a value on the liabilities. The rate is referenced to the market yields on high quality corporate bonds, which have shown a long term increase over the duration of the expected liabilities resulting in a lower value being placed on liabilities.

The pension fund is revalued every three years and employers contributions amended to reflect the requirement to reduce the current net liability. The latest triennial valuation was 1 April 2016 with revised employer contribution rates set to be announced towards the end of 2016, effective from 1 April 2017.

### *Non-Financial Performance*

The Authority's Strategic Plan 2014 - 2018 sets out the Authority's priorities and high level targets to May 2018. Performance against these targets is reported on a quarterly basis. A full annual report including benchmarking of performance compared to other local authorities will be produced in autumn 2016. Provisional 2015/16 performance results for a basket of key performance indicators are set out below. Some results represent quarter 4 positions rather than the provisional end of year result. Quartile positions are based on 2014/15 end of year results.

| Indicator | Strategic Plan Target | 2015/16 | 2014/15 | Quartile Position |
|---|---|---|---|---|
| **Corporate Performance** | | | | |
| % Residents think the Authority is doing a good job | - | 59.8% | 55.3% | n/a |
| % Residents agree that the Authority provides value for money | - | 74.0% | 77.0% | 1st/2nd |
| % of the workforce that feels that LCC is committed to equality & diversity | 90% | 91.9% | 91.9% | n/a |
| Staff sickness absence (working days per FTE) | 7.5 | 9.32 | 9.83 | 3rd/4th |
| **Enabling Economic Growth** | | | | |
| % of population with access to high speed broadband | 93.8% | 91% | 87% | 2nd |
| Economic impact value of tourism (Leicester & Leics) | £1.533bn | £1.676bn | £1.571bn | - |
| Unemployment rate (JSA claimant count) | 1.1% | 0.9% | 1% | 2nd |
| 16 to 18 year olds who are not in education employment or training (NEET) | <4% | 2.9% | 3.1% | 1st |
| **Transport and Road Safety** | | | | |
| People killed or seriously injured in road traffic accidents | <167 | 234 | 250 | 3rd |
| Total casualties on our roads. | <1,494 | 1.685 | 1,915 | 3rd |
| % of priority 1 and 2 routes gritted | 100% | 100% | 100% | n/a |
| **Health and Social Care Integration** | | | | |
| Permanent admissions of older people to residential and nursing care homes per 100,000 population | 670.39 | 642.3 | 711.8 | 3rd |
| Permanent admissions to residential or nursing care of service users aged 18-64 per 100,000 population | 13.5 | 9.0 | 15.6 | 3rd |
| % of people who use services who say that those services have made them feel safe and secure. | 90%+ | 89.0% | 89.2% | 1st |
| **Public Health** | | | | |
| Percentage of people offered a health check annually that have received a health check (uptake) | 61% | 44.6% | 46.6% | 3rd |
| % of Leicestershire population (16+) participating in one or more sports a week for 30 minutes or more | Increase | 38% | 38.1% | 1st |
| % of adults classified as overweight or obese (Leics) | Top quartile | 64.7% | 65.4% | 3rd |
| **Children and Families** | | | | |
| % of child protection cases which were reviewed within required timescales | 100% | 99.1% | 97.8% | 2nd |
| % of schools assessed as good or outstanding | >84% | 87% | 84.7% | 2nd |
| Achievement of 5 or more A*-C grades at GCSE or equivalent including English and Maths (Key Stage 4) | 70% | - | 56.8% | Avg 56.3% |
| **Safer Communities – Better Environment / Place** | | | | |
| Total CO2 emissions from LCC operations (excluding schools) (tonnes) | 23455 | 29,020 | 26,120 | N/A |
| % of household waste sent by local authorities for reuse, recycling, composting etc. | Increase | 50.4% | 50.5% | 1st |
| % local authority collected waste landfilled | Decrease | 28.4% | 29% | 2nd |

## *Future Prospects*

The state of public finances is likely to signify a continuation of very tight funding for the foreseeable future. Combining this with the objective to minimise council tax means that the Authority will continue to operate within an extremely tight financial environment over the medium term.

## Narrative Statement

The Authority's Medium Term Financial Strategy (MTFS) agreed in February 2016 is based on a council tax increase of 3.99% for 2016/17, including a 2% adult social care precept agreed by Central Government, followed by annual increases of 3.99% in the following three years. The MTFS assumes that the level of Government funding will decline by a further 47% over the four years of the MTFS. The Chancellor of the Exchequer's 2016 Autumn statement confirmed that the Government plans to eliminate the current public sector deficit by 2019/20 with significant implications for the public sector. Local Government is the area that continues to face the largest reduction in funding. As a result the Authority faces an extremely challenging financial environment with a requirement to make significant savings over the medium term. The result of the UK European Union referendum in June 2016 to leave the EU has created further uncertainty to public sector funding with some early commentators forecasting that the public sector austerity may continue for a further two years than previously forecast to 2021/22.

There is little doubt that the Authority faces the most uncertain and risky financial environment for a generation. There are a number of known major risks over the next few years that could have a significant financial impact on the Authority. These include:

- Non-achievement of savings and income targets. The requirement for savings and additional income totals £78.3m over the next four years of which £19.5m is unidentified.
- Service pressures resulting in an overspend. There are increasing pressures within Adults and Children's social care. In 2015/16 the children's placement budget overspent and the acute pressure on national health services is likely to result in higher demand for social care services in the future.
- There is a risk that the element of the Better Care Fund that is available to support adult social care services does not continue in the later years of the MTFS.
- Public finances continue to deteriorate with the potential for further reductions beyond the four year allocations announced by central government.

To meet the financial challenge and the need to deliver services differently, the Authority's Transformation Programme will continue to support the delivery of the MTFS savings, through challenging and supporting a new approach to commissioning and service delivery. The main four-year savings are:

- Children and Family Services (£8.8m). This includes reducing costs for social care placements, managing demand and development of a new departmental operating model.
- Adult Social Care (£16.7m). This includes managing demand and reducing costs of social care by reviewing personal budget allocations and contracts.
- Highways and Transport (£13.4m). Savings will be delivered through a revised approach to Highways Maintenance, reviewing contracts and service reviews. Also by making savings to non-statutory services such as rural bus subsidies.
- Environment (£3.6m). Service delivery reviews for Recycling and Household Waste Sites plus reducing/ceasing payments for recycling credits are planned.
- Corporate Resources (£8.4m). This includes reviews of all support services e.g. Property, Traded Services, ICT, Human Resources and Finance.

It is estimated that the proposals would lead to a reduction of up to 500 posts (full time equivalents) over the four-year period. However, it is expected that the number of compulsory redundancies will be lower, given the scope to manage the position over the period through staff turnover and vacancy control.

It is proposed to undertake some corporate transformational reviews to address this gap. Once business cases have been developed savings will be confirmed and included in the MTFS. The reviews are;

- *Digital Council/Business Support*. The digital council programme is potentially the largest and most complex of the emerging opportunities for further savings. It aims to reduce the 'cost to serve' by challenging the design of service delivery processes through increasing the use of technology and ensuring that services are fulfilled by staff using mobile / self-service process and new work styles.

- *Early Help and Prevention Review.*

- *Social Care / Special Educational Needs (SEN) Transport*. Regarding the provision of transport to social care and SEN clients.

- *Commercial Services*. A business plan will be developed to increase significantly income generation.

- *Minimum Revenue Provision (MRP*). To review the period over which MRP is calculated to reduce the annual costs.

- *Council Tax Discount Schemes*. Working with District Councils to review the level of Council Tax support. For example, decrease in support to 20% could raise Council Tax for the County Council by circa £0.5m.
- *Lower Cost Social Care Provision*. To review of the cost of externally procured residential provision.

- *Management of Schools*. The Government's Autumn Statement included an announcement of its intention to reduce local authorities' statutory responsibilities and remove their role in running schools. A review of the Authority's role will be undertaken.

- *Whole Life Approach*. To develop a new service provision strategy for people living with disabilities.

The MTFS is reviewed annually in the autumn to reflect the latest view on available resources. The current MTFS is available on the Authority's website at www.leicestershire.gov.uk

### *Changes in Accounting Standards*

There were no material changes in accounting standards for 2015/16.

From 2016/17 the Chartered Institute of Public Finance and Accountancy (CIPFA) have approved the move to measuring Highways Network Assets (HNA) - currently called Infrastructure Assets – to a depreciated replacement cost basis instead of depreciated historic cost basis. This will be a major change to the values included on the Authority's balance sheet for HNA from 2016/17. Initial estimates value HNA to be around £8.7bn including land compared with the current £326m for infrastructure assets included in the balance sheet at 31 March 2016.

### *Contents of the Statement of Accounts*

The following financial statements represent the Authority's accounts for the 2015/16 financial year:

- ***Movement in Reserves Statement:***

This financial statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General County Fund Balance for tax setting purposes. The net increase or decrease before transfers to earmarked reserves line shows the statutory General County Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

- ***Comprehensive Income and Expenditure Statement (CIES):***

This financial statement shows the accounting cost in the year of providing services in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. The Authority raises taxation to cover expenditure in accordance with statutory regulations which may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The CIES has two sections:

- Surplus or Deficit on the Provision of Services – the increase or decrease in the net worth of the Authority as a result of incurring expenses and generating income.

- Other Comprehensive Income and Expenditure – shows any changes in net worth which have not been reflected in the Surplus or Deficit on the Provision of Services. These include the increase or decrease in the net worth of the Authority as a result of movements in the fair value of its assets and actuarial gains or losses on pension assets and liabilities.

- ***Balance Sheet:***

The Balance Sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the Authority. It incorporates all the funds of the Authority, both capital and revenue, with the exception of the Pension Fund and Trust funds.

The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains or losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statements line ‘Adjustments between accounting basis and funding basis under regulations’.

- ***Cash Flow Statement:***

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

- ***Pension Fund:***

The Pension Fund statement of account details the annual results of the Leicestershire Authority administered Local Government Pension Fund for Leicestershire, covering both Authority employees and those of District Councils and other admitted bodies.

***Date of Authorisation of Accounts***

The accounts were authorised for issue by the Director of Finance on the 27 September 2016. This was the last date when events after the Balance Sheet date have been considered.

**C TAMBINI**
**DIRECTOR OF FINANCE**
**Date: 27th SEPTEMBER 2016**

# Movement in Reserves Statement

### Movement In Reserves During 2015/16

| | General Fund Balance £m | Earmarked Reserves £m | Capital Receipts Reserve £m | Capital Grants Unapplied £m | Total Usable Reserves £m | Unusable Reserves £m | Total Authority Reserves £m | Note |
|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2015 Brought Forward** | 27.2 | 103.3 | 14.0 | 6.0 | 150.5 | (187.2) | (36.7) | |
| Surplus on provision of services | 14.6 | 0.0 | 0.0 | 0.0 | 14.6 | 0.0 | 14.6 | |
| Other Comprehensive Expenditure and Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 259.5 | 259.5 | 8, 14, 15, 16 |
| **Total Comprehensive Expenditure and Income** | 14.6 | 0.0 | 0.0 | 0.0 | 14.6 | 259.5 | 274.1 | |
| Adjustments between accounting basis & funding basis under regulations | (14.1) | 0.0 | (3.0) | (0.1) | (17.2) | 17.2 | 0.0 | 7 |
| Net Increase/ (Decrease) before Transfers to Earmarked Reserves | 0.5 | 0.0 | (3.0) | (0.1) | (2.6) | 276.7 | 274.1 | |
| Transfers to/from Earmarked Reserves | 12.7 | (12.7) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 10 |
| Increase/ (Decrease) in Year | 13.2 | (12.7) | (3.0) | (0.1) | (2.6) | 276.7 | 274.1 | |
| **Balance at 31 March 2016 Carried Forward** | **40.4** | **90.6** | **11.0** | **5.9** | **147.9** | **89.5** | **237.4** | |

## Movement In Reserves During 2014/15

| | General Fund Balance £m | Earmarked Reserves £m | Capital Receipts Reserve £m | Capital Grants Unapplied £m | Total Usable Reserves £m | Unusable Reserves £m | Total Authority Reserves £m | Note |
|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2014 Brought Forward** | 23.7 | 106.7 | 11.0 | 4.8 | 146.2 | (81.6) | 64.6 | |
| Deficit on provision of services | (74.8) | 0.0 | 0.0 | 0.0 | (74.8) | 0.0 | (74.8) | |
| Other Comprehensive Expenditure and Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (26.5) | (26.5) | 14,15 ,16 |
| **Total Comprehensive Expenditure and Income** | (74.8) | 0.0 | 0.0 | 0.0 | (74.8) | (26.5) | (101.3) | |
| Adjustments between accounting basis & funding basis under regulations | 74.9 | 0.0 | 3.0 | 1.2 | 79.1 | (79.1) | 0.0 | 7 |
| Net Increase/ (Decrease) before Transfers to Earmarked Reserves | 0.1 | 0.0 | 3.0 | 1.2 | 4.3 | (105.6) | (101.3) | |
| Transfers to/from Earmarked Reserves | 3.4 | (3.4) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 10 |
| Increase/ (Decrease) in Year | 3.5 | (3.4) | 3.0 | 1.2 | 4.3 | (105.6) | (101.3) | |
| **Balance at 31 March 2015 Carried Forward** | **27.2** | **103.3** | **14.0** | **6.0** | **150.5** | **(187.2)** | **(36.7)** | |

# Comprehensive Income and Expenditure Statement

| 2014/15 Gross Expenditure £m | 2014/15 Gross Income £m | 2014/15 Net Expenditure £m | | Note | 2015/16 Gross Expenditure £m | 2015/16 Gross Income £m | 2015/16 Net Expenditure £m |
|---|---|---|---|---|---|---|---|
| | | | **CONTINUING SERVICES** | | | | |
| 328.6 | (219.6) | 109.0 | Children and Family Services | | 323.3 | (221.4) | 101.9 |
| 217.6 | (64.9) | 152.7 | Adult Social Care | | 223.8 | (77.9) | 145.9 |
| 71.4 | (21.6) | 49.8 | Highways and Transport Services | | 69.4 | (21.9) | 47.5 |
| 18.7 | (4.6) | 14.1 | Cultural & Related Services | | 20.6 | (4.1) | 16.5 |
| 37.5 | (2.5) | 35.0 | Environment & Regulatory Services | | 32.0 | (2.9) | 29.1 |
| 10.3 | (1.9) | 8.4 | Planning Services | | 8.0 | (2.5) | 5.5 |
| 1.8 | (0.9) | 0.9 | Central Services to the Public | | 1.9 | (1.1) | 0.8 |
| 0.2 | (0.1) | 0.1 | Housing Services | | 0.1 | (0.1) | 0.0 |
| 25.6 | (23.8) | 1.8 | Public Health | | 26.9 | (25.8) | 1.1 |
| 36.1 | (22.0) | 14.1 | Corporate & Democratic Core | | 37.0 | (22.6) | 14.4 |
| 4.0 | (8.8) | (4.8) | Non Distributed Costs | 4 | 4.7 | (5.8) | (1.1) |
| **751.8** | **(370.7)** | **381.1** | **NET COST OF SERVICES** | | **747.7** | **(386.1)** | **361.6** |
| 0.3 | (0.2) | 0.1 | Other Operating Expenditure (Excluding transfer of Academies) | 11 | 0.3 | (0.9) | (0.6) |
| 59.8 | 0.0 | 59.8 | Other Operating Expenditure (Transfer of Academies) | 4,11 | 13.4 | 0.0 | 13.4 |
| 42.8 | (3.7) | 39.1 | Financing and Investment Income and Expenditure | 12 | 39.6 | (4.2) | 35.4 |
| 0.0 | (405.3) | (405.3) | Taxation and Non-specific Grant Income | 13 | 0.0 | (424.4) | (424.4) |
| | | **74.8** | **(SURPLUS) / DEFICIT ON PROVISION OF SERVICES** | | | | **(14.6)** |
| | | | **Items that will not be reclassified to the (surplus) or deficit on the provision of services:** | | | | |
| | | (78.4) | Surplus on Revaluation of Property, Plant and Equipment (15, 16) | | | | (25.0) |
| | | 104.9 | Remeasurement of the Net Defined Benefit Liability/(Asset) (14) | | | | (235.4) |
| | | **26.5** | **Total Items that Will Not Be Reclassified to the (Surplus) or Deficit on the Provision of Services** | | | | **(260.4)** |
| | | | **Items that will may be reclassified to the (surplus) or deficit on the provision of services:** | | | | |
| | | 0.0 | Deficit on the Revaluation of Available for Sale Financial Assets (8) | | | | 0.9 |
| | | **0.0** | **Total Items that May Be Reclassified to the (Surplus) or Deficit on the Provision of Services** | | | | **0.9** |
| | | **26.5** | **OTHER COMPREHENSIVE INCOME AND EXPENDITURE** | | | | **(259.5)** |
| | | **101.3** | **TOTAL COMPREHENSIVE INCOME AND EXPENDITURE** | | | | **(274.1)** |

# Balance Sheet as at 31st March 2016

| 31 March 2015 Restated £m | | Note | 31 March 2016 £m | |
|---|---|---|---|---|
| 448.5 | Land and Buildings | 15 | 451.3 | |
| 6.6 | Vehicles, Plant, Furniture & Equipment | 15 | 11.6 | |
| 317.8 | Infrastructure Assets | 15 | 326.0 | |
| 11.3 | Community Assets | 15 | 11.3 | |
| 7.0 | Assets Under Construction | 15 | 30.5 | |
| 3.1 | Surplus Assets | 15 | 3.3 | |
| **794.3** | **Total Property, Plant and Equipment** | | | **834.0** |
| 0.0 | Investment Property | 17 | 0.9 | |
| 4.4 | Heritage Assets | 16 | 4.5 | |
| 2.2 | Intangible Assets | 15 | 2.1 | |
| 0.0 | Long Term Investments | 18 | 14.1 | |
| 53.6 | Long Term Debtors | 20 | 50.0 | |
| **854.5** | **TOTAL LONG-TERM ASSETS** | | | **905.6** |
| 5.0 | Assets Held for Sale | 15 | 4.8 | |
| 0.5 | Current Intangible Assets | | 0.6 | |
| 1.4 | Inventories | 19 | 2.2 | |
| 63.9 | Short Term Debtors | 21 | 71.8 | |
| 92.3 | Cash and Cash Equivalents | 22 | 43.0 | |
| 80.7 | Short Term Investments | 18 | 142.4 | |
| **243.8** | **TOTAL CURRENT ASSETS** | | | **264.8** |
| (15.1) | Short Term Borrowing | 18 | (3.9) | |
| (83.1) | Short Term Creditors | 24 | (101.7) | |
| (1.6) | Short Term Capital Grants Receipts in Advance | 37 | (1.1) | |
| 0.0 | Short Term Finance Lease Liabilities | 41 | (0.1) | |
| (3.2) | Short Term Provisions | 25 | (3.6) | |
| (0.8) | Bank Overdraft | 22 | 0.0 | |
| **(103.8)** | **TOTAL CURRENT LIABILITIES** | | | **(110.4)** |
| (278.1) | Long Term Borrowing | 18 | (277.5) | |
| (1.5) | Long Term Finance Lease Liabilities | 41 | (1.4) | |
| (2.7) | Long Term Creditors | 23 | (3.6) | |
| (5.8) | Long Term Provisions | 25 | (4.5) | |
| (731.0) | Net Pensions Liability | 8 | (523.7) | |
| (12.1) | Long Term Capital Grants Receipts in Advance | 37 | (11.9) | |
| **(1,031.2)** | **TOTAL LONG-TERM LIABILITIES** | | | **(822.6)** |
| **(36.7)** | **NET ASSETS / (LIABILITIES)** | | | **237.4** |
| 27.2 | General County Fund | 9 | 40.4 | |
| 103.3 | Earmarked Revenue Reserves | 10 | 90.6 | |
| 14.0 | Capital Receipts Reserve | | 11.0 | |
| 6.0 | Capital Grants Unapplied | | 5.9 | |
| **150.5** | **TOTAL USABLE RESERVES** | | | **147.9** |
| 202.0 | Revaluation Reserve | 8 | 221.0 | |
| 0.0 | Available for Sale Financial Instruments | 8 | (0.9) | |
| 350.2 | Capital Adjustment Account | 8 | 399.4 | |
| (5.7) | Financial Instruments Adjustment Account | 8 | (5.4) | |
| 0.0 | Deferred Capital Receipts Reserve | 8 | 0.0 | |
| (731.0) | Pension Reserve | 8 | (523.7) | |
| 2.5 | Collection Fund Adjustment Account | 8 | 3.7 | |
| (5.2) | Short-Term Accumulating Compensated Absences Adjustment Account | 8 | (4.6) | |
| **(187.2)** | **TOTAL UNUSABLE RESERVES** | | | **89.5** |
| **(36.7)** | **TOTAL RESERVES** | | | **237.4** |

# Cash Flow Statement

| 2014/15 £m | | Note | 2015/16 £m | 2015/16 £m |
|---|---|---|---|---|
| 74.8 | Net (surplus) / deficit on the provision of services | | (14.6) | |
| (133.6) | Adjust net (surplus) / deficit on the provision of services for non cash movements | 26 | (86.3) | |
| 26.1 | Adjust for items included in the net (surplus) / deficit on the provision of services that are investing and financing activities | 26 | 54.0 | |
| 12.6 | Net Cash flows from Operating Activities | 27 | 12.1 | |
| (20.1) | Total Net cash flows from Operating Activities | | | (34.8) |
| (26.3) | Net cash flows from Investing Activities | 28 | | 71.7 |
| 8.0 | Net cash flows from Financing Activities | 29 | | 11.6 |
| **(38.4)** | **Net (Increase)/Decrease in Cash and Cash Equivalents** | | | **48.5** |
| **(53.1)** | **Cash and Cash Equivalents at the Beginning of the Reporting Period** | | | **(91.5)** |
| **(91.5)** | **Cash and Cash Equivalents at the End of the Reporting Period** | | | **(43.0)** |

The notes to the financial statements are detailed on pages 17 - 100.

# Notes to the Accounts

## Note 1: Accounting Standards Issued But Not Yet Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2016/17 Code:

- The Annual Improvements Cycle to IFRSs *(2012 – 2014 Cycle)* involves minor improvements and updates to *IFRS 5 Discontinued Operations and Assets Held for Sale*, *IFRS 11 Joint Arrangements, IFRS 7 Financial instruments* and *IAS 34 Interim Reporting* to provide further clarity on disclosure requirements. These amendments are minor and are not expected to have a material impact on the 2015/16 Statement of Accounts.

- Amendment to *IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)* to provide further clarity on disclosure. These amendments will not have a material effect on the 2015/16 Statement of Accounts.

- Amendment to *IAS 16 Property, Plant and Equipment* to define acceptable methods of depreciation and amortisation. The Authority operates accounting policies for non-current assets that are compliant with the requirements of IAS 16. These amendments will not have a material effect on the 2015/16 Statement of Accounts.

- Amendment to *IAS 1 Presentation of the Financial Statements* introduces changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and a new Expenditure and Funding Analysis. This is as a result of the 'Telling the Story' review of the presentation of Local Authority financial statements by the International Accounting Standards Board (IASB). Although these changes have no impact on the 2015/16 Statement of Accounts, in 2016/17 the comparator 2015/16 financial statements must reflect the new formats and reporting requirement.

## Note 2: Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 49, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- Municipal Mutual Insurance Limited (MMI), the Authority's former insurer between November 1969 and October 1991, ceased writing insurance business owing to financial difficulties in September 1992. MMI made a scheme of arrangement with its creditors in the event of the company becoming insolvent. The latest financial information for MMI shows estimated net liabilities of £112m which resulted in a levy on all scheme creditors to fund the estimated net liabilities. The position continues to be regularly monitored and if it becomes probable that a further transfer of future economic benefits will be required a Provision will be established.

- During 2015/16 five schools converted to Academy status. The assets have been transferred to the Academies as 125 year finance leases. This has resulted in the land remaining on the Authority's Balance Sheet as 125 years is not a major part of the land's indefinite life. The buildings are not included on the Authority's Balance Sheet as they have been leased for the major part of their remaining useful life.

- The Authority has determined that the East Midlands Shared Services Joint Committee meets the definition of a jointly controlled operation. The Authority has therefore accounted for its share of the Joint Committee's income and expenditure within its accounts as detailed in note 39.

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

## Note 3: Assumptions Made about the Future and Major Sources of Estimation Uncertainty

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

The items in the Authority's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

| **Items** | **Uncertainties** | **Effect if actual results differ from assumptions** |
|---|---|---|
| Property, Plant and Equipment | Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.<br><br>The carrying value of Property, Plant and Equipment at 31 March 2016 is £834.0m. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.<br>It is estimated that the annual depreciation charge for Property, Plant and Equipment would increase by £2.6m for every year that useful lives had to be reduced. |
| Insurance Reserve | The Insurance Reserve is held to meet the estimated costs of future claims to enable the Council to meet excesses not covered by insurance policies.<br><br>There is uncertainty that the Authority may have to meet potential liabilities arising from its failed former insurers. Municipal Mutual Insurance Limited (MMI) is subject to a run-off of claims following its closure to insurance business in 1992 and The Independent Insurance Company Limited has entered provisional liquidation.<br><br>The latest accounts of MMI show a worsening position with actual and forecast claims exceeding the forecasts made by MMI's actuaries. The estimated net liabilities for MMI totalled £112m at the end of December 2015 and as a result the scheme administrators increased the levy on scheme members in March 2016 to 25% (from 15% imposed in April 2014) at a cost to the Authority of £1.5m. | The position is regularly reviewed to ensure that there are sufficient funds in the insurance reserve to fund future uninsured liabilities.<br><br>As at 31 March 2016 the Insurance Reserve has a balance of £19.2m as shown in note 10. |

| | | |
|---|---|---|
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. An independent firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied, although ultimate responsibility for forming these assumptions remains with the Authority.<br><br>The carrying value of the Pension Liability at 31 March 2016 is £523.7m | The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £151.3m. A one year increase in member life expectancy compared with the assumption used would increase the liabilities by £45.7m.<br><br>However, the assumptions interact in complex ways. During 2015/16, the Authority's actuaries advised that the net pension liability had increased by £1.0m as a result of estimates being corrected as a result of experience and decreased by £235.4m attributable to updating of the assumptions. |
| Debtors | At 31 March 2016, the Authority had a balance of sundry debtors of £20.1m and secured memo debt (elderly persons debt secured against properties) of £4.2m. Provisions for doubtful debts are maintained for certain categories of income by individual departments. However in the current economic climate it is not certain that such an allowance would be sufficient. | If collection rates were to deteriorate, a doubling of the amount of the impairment for doubtful debts would require an additional £2.4m to be set aside as an allowance. |

## Note 4: Material Items of Income and Expense

During 2015/16 five schools transferred to Academy Status resulting in the net book value of the schools, £13.4m (2014/15 twenty one schools at £59.8m) being written out of the Authority's Balance Sheet through the Other Operating Expenditure section of the Comprehensive Income and Expenditure Statement (CIES). These entries are reversed out via the Movement in Reserves Statement and do not have an impact on the General County Fund. The Authority has no choice in whether to transfer these assets and does not receive any consideration for their transfer. Further transfers of schools to Academy Status are expected in 2016/17 and later years.

When schools become Academies the pension fund assets and liabilities of the schools, as assessed by the Actuary at the time of transfer, are transferred from the Authority's pension scheme to separate pension funds within the Local Government Pension Scheme. For 2015/16 there was an overall net reduction in liabilities to the Authority's pension scheme totalling £3.6m (2014/15 £6.2m) on settlement which has been credited to the Non Distributed Cost line in the CIES.

## Note 5: Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Director of Finance on 27 September 2016. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2016 as they provide information that is relevant to an understanding of the Authority's financial position, but do not relate to conditions at that date:

A further eight schools have transferred to Academy Status by the authorised for issue date. The net book value to be written out of the Authority's Balance Sheet is £6.0m.

On the 23rd June 2016 The United Kingdom of Great Britain and Northern Ireland (UK) voted for withdrawal from the European Union. As a result of the referendum the UK is obliged, at the discretion of Parliament, to enact Article 50 of the Lisbon Treaty. In so doing this would trigger the legal framework for withdrawal. Despite speculation, no formal date has been announced on which to initiate this process. Until exit negotiations are concluded, the UK remains a full member of the EU with all the rights and obligations of EU membership. It is therefore considered that the EU referendum represents a non-adjusting event for which no estimate of its financial effect on the Authority can be reliably made.

## Note 6: Adjustments between Accounting Basis and Funding Basis under Regulations

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

The following sets out a description of the reserves that the adjustments are made against.

### *General County Fund Balance*

The General County Fund is the statutory fund into which all the receipts of an Authority are to be paid into and out of which all liabilities of the Authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General County Fund Balance, which is not necessarily in accordance with proper accounting practice. The General County Fund Balance therefore summarises the resources that the Authority is statutorily empowered to spend on its services or on capital investment.

### *Capital Receipts Reserve*

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

### *Capital Grants Unapplied*

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

## Note 7: Usable Reserves

| | Usable Reserves | | | |
|---|---|---|---|---|
| **2015/16** | **General County Fund Balance £m** | **Capital Receipts Reserve £m** | **Capital Grants Unapplied £m** | **Movement in Unusable Reserves £m** |
| ***Adjustments primarily involving the Capital Adjustment Account*** | | | | |
| ***Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement*** | | | | |
| Non-current asset depreciation and impairment | 26.4 | 0.0 | 0.0 | (26.4) |
| Revaluation losses on Property, Plant and Equipment | 11.0 | 0.0 | 0.0 | (11.0) |
| Amortisation of intangible assets | 0.5 | 0.0 | 0.0 | (0.5) |
| Capital grants and contributions | (64.8) | 0.0 | 0.0 | 64.8 |
| Revenue expenditure funded from capital under statute | 8.2 | 0.0 | 0.0 | (8.2) |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 15.7 | 0.0 | 0.0 | (15.7) |
| ***Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement*** | | | | |
| Statutory provision for the financing of capital investment | (12.0) | 0.0 | 0.0 | 12.0 |
| Principal repayments of transferred Debt | 2.1 | 0.0 | 0.0 | (2.1) |
| Voluntary provision for the Repayment of Debt | (2.9) | 0.0 | 0.0 | 2.9 |
| Capital expenditure charged against the General Fund | (21.1) | 0.0 | 0.0 | 21.1 |
| ***Adjustments primarily involving the Capital Grants Unapplied Account*** | | | | |
| Application of capital grants and contributions credited to the Comprehensive Income and Expenditure Statement yet to be applied | 0.0 | 0.0 | (0.1) | 0.1 |
| ***Adjustments primarily involving the Capital Receipts Reserve*** | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (3.2) | 3.2 | 0.0 | 0.0 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | 0.0 | (6.2) | 0.0 | 6.2 |
| ***Adjustments primarily involving the Financial Instruments Adjustment Account*** | | | | |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | (0.3) | 0.0 | 0.0 | 0.3 |

| | | | | |
|---|---|---|---|---|
| ***Adjustments primarily involving the Pensions Reserve*** | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | 28.1 | 0.0 | 0.0 | (28.1) |
| ***Adjustments primarily involving the Collection Fund Adjustment Account*** | | | | |
| Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements | (1.2) | 0.0 | 0.0 | 1.2 |
| ***Adjustments primarily involving the Short-term Accumulating Compensated Absences Adjustments Account*** | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (0.6) | 0.0 | 0.0 | 0.6 |
| **Total Adjustments** | **(14.1)** | **(3.0)** | **(0.1)** | **17.2** |

| | Usable Reserves | | | |
|---|---|---|---|---|
| **2014/15 Comparator** | **General County Fund Balance £m** | **Capital Receipts Reserve £m** | **Capital Grants Unapplied £m** | **Movement in Unusable Reserves £m** |
| ***Adjustments primarily involving the Capital Adjustment Account*** ***Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement*** | | | | |
| Non-current asset depreciation and impairment | 29.9 | 0.0 | 0.0 | (29.9) |
| Revaluation losses on Property, Plant and Equipment | 22.2 | 0.0 | 0.0 | (22.2) |
| Amortisation of intangible assets | 0.5 | 0.0 | 0.0 | (0.5) |
| Capital grants and contributions | (38.8) | 0.0 | 0.0 | 38.8 |
| Revenue expenditure funded from capital under statute | 6.8 | 0.0 | 0.0 | (6.8) |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 62.5 | 0.0 | 0.0 | (62.5) |
| ***Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement*** | | | | |
| Statutory provision for the financing of capital investment | (12.7) | 0.0 | 0.0 | 12.7 |
| Principal repayments of transferred Debt | 2.2 | 0.0 | 0.0 | (2.2) |

| | | | | |
|---|---|---|---|---|
| Voluntary provision for the Repayment of Debt | (6.4) | 0.0 | 0.0 | 6.4 |
| Capital expenditure charged against the General Fund | (8.4) | 0.0 | 0.0 | 8.4 |
| ***Adjustments primarily involving the Capital Grants Unapplied Account*** | | | | |
| Application of capital grants and contributions credited to the Comprehensive Income and Expenditure Statement yet to be applied | (1.2) | 0.0 | 1.2 | 0.0 |
| ***Adjustments primarily involving the Capital Receipts Reserve*** | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (2.9) | 2.9 | 0.0 | 0.0 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | 0.0 | (2.1) | 0.0 | 2.1 |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | 0.0 | 2.2 | 0.0 | (2.2) |
| ***Adjustments primarily involving the Financial Instruments Adjustment Account*** | | | | |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | (0.3) | 0.0 | 0.0 | 0.3 |
| ***Adjustments primarily involving the Pensions Reserve*** | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | 22.7 | 0.0 | 0.0 | (22.7) |
| ***Adjustments primarily involving the Collection Fund Adjustment Account*** | | | | |
| Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements | (0.6) | 0.0 | 0.0 | 0.6 |
| ***Adjustments primarily involving the Short-term Accumulating Compensated Absences Adjustments Account*** | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (0.6) | 0.0 | 0.0 | 0.6 |
| **Total Adjustments** | **74.9** | **3.0** | **1.2** | **(79.1)** |

# Note 8: Unusable Reserves

### *Revaluation Reserve*

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

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

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

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| **161.6** | **Balance at 1 April** | **202.0** |
| 136.4 | Upward revaluation of assets | 38.8 |
| (58.0) | Downward revaluation of assets losses not charged to the Surplus or (Deficit) on the Provision of Services | (13.8) |
| (33.6) | Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES | (2.6) |
| (4.4) | Difference between fair value depreciation and historical cost depreciation | (3.4) |
| **202.0** | **Balance at 31 March** | **221.0** |

### *Available for Sale Financial Asset Account*

Available for sale financial assets are carried at fair value on the balance sheet and require regular valuations. Changes in the fair value of available for sale financial assets are held in a separate available for sale financial instrument reserve. The change in valuation at 31 March is due to fees on acquisition of the pooled property investment fund. However, the underlying value of the investment has increased during the same period.

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| **0.0** | **Balance at 1 April** | **0.0** |
| 0.0 | Change in Fair Value of Available for Sale Financial Instruments | (0.9) |
| **0.0** | **Balance at 31 March** | **(0.9)** |

### Capital Adjustment Account

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

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

Note 7 to the accounts provide details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| **367.8** | **Balance at 1 April** | **350.2** |
| | ***Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:*** | |
| (25.4) | Charges for depreciation of non-current assets | (23.0) |
| (22.2) | Revaluation losses on Property, Plant and Equipment | (11.0) |
| (0.5) | Amortisation of intangible assets | (0.5) |
| (6.8) | Revenue expenditure funded from capital under statute | (8.2) |
| (28.9) | Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (13.1) |
| | Capital financing applied in year: | |
| 2.1 | Use of the Capital Receipts Reserve to finance new capital expenditure | 6.2 |
| 38.8 | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 64.8 |
| 0.0 | Application of grants to capital financing from the Capital Grants Unapplied Account | 0.1 |
| 12.7 | Statutory provision for the financing of capital investment charged against the General Fund Balance | 12.0 |
| 6.4 | Voluntary provision for the financing of capital investment charged against the General Fund Balance | 2.9 |
| (2.2) | Principal Repayments of transferred Debt | (2.1) |
| 8.4 | Capital expenditure charged against the General County Fund Balance | 21.1 |
| **350.2** | **Balance at 31 March** | **399.4** |

### *Deferred Capital Receipts Reserve*

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

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| **2.2** | **Balance at 1 April** | **0.0** |
| 0.0 | Deferred Capital Receipts recognised in year | 0.0 |
| (2.2) | Transfer to the Capital Receipts Reserve upon receipt of cash | 0.0 |
| **0.0** | **Balance at 31 March** | **0.0** |

### *Financial Instruments Adjustment Account*

The Financial Instruments Adjustment Account absorbs the timing differences arising from different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. The Authority uses the Account to manage premiums paid and discounts received on the early redemption of loans. Premiums and discounts are taken to the CIES when they are incurred, but reversed out of the General Fund Balance to the Account in the MIRS. Over time, the expense is posted back to the General Fund Balance in accordance with the statutory arrangements for spreading the burden on council tax. For early repayments since 1 April 2007, this period is the lesser of the remaining period of the loan(s) being repaid or a maximum of 10 years. All premiums and discounts prior to this date are charged over a period of up to 25 years.

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| **(6.0)** | **Balance at 1 April** | **(5.7)** |
| | ***Amounts by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements:*** | |
| 0.9 | Annual write down of premiums paid on rescheduled debt | 0.9 |
| (0.6) | Annual write down of discounts received on rescheduled debt | (0.6) |
| **(5.7)** | **Balance at 31 March** | **(5.4)** |

### *Pensions Reserve*

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

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| **(603.3)** | **Balance at 1 April** | **(731.0)** |
| (104.9) | Remeasurements of the net defined benefit liability | 235.4 |
| (53.9) | Reversal of items relating to retirement benefits debited or credited to the Surplus or (Deficit) on the Provision of Services in the CIES | (62.9) |
| 31.1 | Employer's pensions contributions and direct payments to pensioners payable in the year | 34.8 |
| **(731.0)** | **Balance at 31 March** | **(523.7)** |

### *Collection Fund Adjustment Account*

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the CIES as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General County Fund from the Collection Funds (of billing authorities).

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| **1.9** | **Balance at 1 April** | **2.5** |
| 0.6 | Amount by which council tax and non-domestic rating income credited to the CIES is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements. | 1.2 |
| **2.5** | **Balance at 31 March** | **3.7** |

### *Short-term Accumulating Compensated Absences Adjustment Account*

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

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| **(5.8)** | **Balance at 1 April** | **(5.2)** |
| 5.8 | Settlement or cancellation of accrual made at the end of the preceding year | 5.2 |
| (5.2) | Amounts accrued at the end of the current year | (4.6) |
| 0.6 | Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 0.6 |
| **(5.2)** | **Balance at 31 March** | **(4.6)** |

## Note 9: General County Fund Balance

The balance of the fund as at 31 March 2016, £40.4m (2014/15 £27.2m), contains the following earmarked sums:

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 7.6 | Delegated Funding for Schools | 11.8 |
| 4.7 | Carry forward of underspendings across other services | 13.8 |
| **12.3** | **Earmarked Reserves as at 31 March** | **25.6** |
| 14.9 | Uncommitted balance | 14.8 |
| **27.2** | **Balance at 31 March** | **40.4** |

## Note 10: Movements in Earmarked Revenue Reserves

***Insurance***
The insurance policies held by the Authority require a significant level of self insurance, the level of this being recommended by independent advisers. The monies set aside for self insurance are split between a provision representing outstanding, unsettled claims at 31 March 2016 and a reserve to meet future claims.

***Renewal of Vehicles and Equipment***
Resources for the funding of replacement vehicles and equipment.

***Supporting Leicestershire Families***
This funding has been earmarked to fund both the programme team and the new services under the supporting Leicestershire's Families programme (formerly known as Troubled Families).

***Children & Family Services Developments***
The reserve is held to fund the Department's transformation programmes, projects to provide quality assurance and service improvements that may arise from changes in national legislation and inspection, and one off activities such as responding to high profile issues.

***Health & Social Care Outcomes***
Funding from the primary care trust relating to joint public health initiatives within Leicestershire.

***Adult & Social Care Developments***
Unapplied grants are to be utilised to fund one off 'pump priming' initiatives, invest to save projects and provide a resource to finance potential risks affecting the service.

***Commuted Sums***
To fund future revenue costs arising from developer schemes.

***Waste Strategy Implementation***
Resources have been set aside from underspends to finance the implementation of a County wide waste strategy to increase recycling and reduce landfill.

***Economic Development***
Funding earmarked for economic development proposals.

***Transformation Fund***
A programme of projects to deliver efficiency savings and service improvements across the Authority and to fund potential restructuring costs of reconfiguring those services.

***Capital Financing***
Revenue contributions to fund capital expenditure in future years.

***Broadband***
Funding set aside to develop super-fast broadband to areas within Leicestershire with poor service.

***Children & Family Services – Dedicated Schools Grant***
Dedicated schools grant ring fenced for schools. Finance to ease the impact of significant reductions in government grants.

The following table outlines the movements in the Authority's earmarked reserves:

| | Balance at 31 March 2014 £m | Transfers From Revenue £m | Transfers To Revenue £m | Balance at 31 March 2015 £m | Transfers From Revenue £m | Transfers To Revenue £m | Balance at 31 March 2016 £m |
|---|---|---|---|---|---|---|---|
| Insurance | 14.9 | 3.8 | (1.5) | 17.2 | 3.8 | (1.8) | 19.2 |
| Renewals of Vehicles & Equipment | 4.9 | 0.4 | (2.9) | 2.4 | 2.6 | (0.7) | 4.3 |
| Children & Family Services (C&FS) | | | | | | | |
| - Supporting Leicestershire Families | 4.6 | 0.0 | (1.3) | 3.3 | 0.0 | (1.0) | 2.3 |
| - C&FS Developments | 2.5 | 0.5 | 0.0 | 3.0 | 1.6 | (0.2) | 4.4 |
| Adults & Communities (A&C) | | | | | | | |
| - Health & Social Care Outcomes | 7.9 | 0.2 | (1.9) | 6.2 | 0.8 | (1.9) | 5.1 |
| - Adult & Social Care Developments | 4.9 | 0.4 | (1.5) | 3.8 | 3.1 | 0.0 | 6.9 |
| Public Health | 1.6 | 1.4 | (1.1) | 1.9 | 0.0 | 0.0 | 1.9 |
| Environment & Transport | | | | | | | |
| - Commuted Sums | 2.3 | 0.1 | 0.0 | 2.4 | 0.2 | (0.3) | 2.3 |
| - Waste Strategy Implementation | 1.6 | 0.0 | (0.4) | 1.2 | 0.5 | (0.2) | 1.5 |
| Chief Executive | | | | | | | |
| - Economic Development | 2.8 | 0.0 | (0.6) | 2.2 | 0.0 | (0.1) | 2.1 |
| - Signposting & Community Support Service | 0.5 | 0.6 | 0.0 | 1.1 | 0.0 | (0.4) | 0.7 |
| Corporate Resources | | | | | | | |
| - Central Maintenance Fund | 1.6 | 0.0 | (0.6) | 1.0 | 0.1 | (1.0) | 0.1 |
| Corporate | | | | | | | |
| - Transformation Fund | 15.5 | 12.5 | (9.2) | 18.8 | 1.1 | (11.8) | 8.1 |
| - Capital Financing | 0.0 | 6.5 | 0.0 | 6.5 | 16.6 | (18.0) | 5.1 |
| - Broadband | 6.3 | 0.2 | (0.1) | 6.4 | 0.0 | (0.3) | 6.1 |
| - Loughborough Science Park | 1.2 | 0.0 | 0.0 | 1.2 | 0.0 | 0.0 | 1.2 |
| - Business Rates Retention | 0.0 | 1.1 | 0.0 | 1.1 | 0.3 | 0.0 | 1.4 |
| Other (reserves below £1m at 31 March 2016) | 24.0 | 3.7 | (14.9) | 12.8 | 4.2 | (4.4) | 12.6 |
| Sub-Total | **97.1** | **31.4** | **(36.0)** | **92.5** | **34.9** | **(42.1)** | **85.3** |
| Children and Family Services – Dedicated Schools Grant | 9.6 | 3.0 | (1.8) | 10.8 | 0.5 | (6.0) | **5.3** |
| **TOTAL** | **106.7** | **34.4** | **(37.8)** | **103.3** | **35.4** | **(48.1)** | **90.6** |

## Note 11: Other Operating Expenditure

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 0.3 | Flood Defence Levies | 0.3 |
| (0.2) | (Gains)/losses on the disposal of non-current assets (Excluding Academies) | (0.9) |
| 59.8 | (Gains)/losses on the disposal of Academies | 13.4 |
| **59.9** | **Total** | **12.8** |

## Note 12: Financing and Investment Income and Expenditure

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 16.3 | Interest payable and similar charges | 16.2 |
| 25.7 | Pensions interest cost and expected return on pensions assets | 23.4 |
| (3.7) | Interest receivable and similar income | (4.0) |
| 0.0 | Income & Expenditure in relation to investment properties and changes in their fair value | (0.1) |
| 0.8 | Other investment income (surplus or deficit on Trading Accounts) | (0.1) |
| **39.1** | **Total** | **35.4** |

## Note 13: Taxation and Non-Specific Grant Incomes

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| (227.4) | Council tax income | (237.2) |
| (56.3) | Non domestic rates | (58.5) |
| (81.5) | Non ringfenced government grants | (64.0) |
| (40.1) | Capital grants and contributions | (64.7) |
| **(405.3)** | **Total** | **(424.4)** |

# Note 14: Pensions Revenue Costs

### *a) Local Government Pension Scheme – A defined benefit scheme*

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in the Local Government Pension Scheme (LGPS) for employees, administered locally by Leicestershire County Council – this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

The Leicestershire County Council Pension Scheme is operated under the regulatory framework for the LGPS and the governance of the scheme is the responsibility of the pension fund management board of Leicestershire County Council. Policy is determined in accordance with the Pension Fund Regulations. The investment managers of the fund are appointed by the board.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note 49.

The Authority recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge we are required to make against council tax is based on the cash payable in year, so the real cost of post employment / retirement benefits is reversed out of the General County Fund via the Movement in Reserves Statement.

The IAS 19 balance sheet position as at 31st March 2016 has improved since the previous year. The principal reason for this is that the discount rate used to value future liabilities increased, which has the impact of reducing the current value of the liabilities. There were also changes to the method of calculating future inflation and a reduction in the assumption for future real (i.e. after inflation) pay growth, both of which also reduced the current value of liabilities. Investment returns over the year were negligible and there was little change to the value of assets. Overall the net liability on the fund has reduced to £523.7m (31 March 2015, £731.0m).

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement during the year:

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| | **Comprehensive Income and Expenditure Statement** | |
| | Cost of Services | |
| | Service cost comprising: | |
| 33.8 | Current service cost | 42.2 |
| 0.6 | Past service costs | 0.9 |
| (6.2) | Settlements and Curtailments | (3.6) |
| | Financing and Investment Income and Expenditure | |
| 25.7 | Net Interest expense | 23.4 |
| 53.9 | Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services | 62.9 |
| | Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | |
| | Remeasurement of the net defined benefit liability comprising: | |
| (100.9) | Return on planned assets (excluding the amount included in the net interest expense) | 24.4 |
| 0.0 | Actuarial gains/losses arising from changes in demographic assumptions | 0.0 |
| 218.9 | Actuarial gains/losses arising from changes in financial assumptions | (235.4) |
| (13.0) | Other | (24.3) |
| **158.9** | Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | **(172.4)** |
| | **Movements in Reserves Statement** | |
| **22.7** | Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code | **28.1** |
| | **Actual amount charged against the County Fund Balance for Pensions in the year** | |
| 28.1 | Employers contributions payable to scheme | 31.8 |
| 3.1 | Unfunded benefits | 3.1 |
| **31.2** | Total amount charged against the County Fund Balance for Pensions in the year | **34.9** |

The cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure in the actuarial gains or losses on pension assets and liabilities line at 31 March 2016 was a loss of £523.7m and at 31 March 2015 was a loss of £731.0m.

### *b) Pension Assets and Liabilities in Relation to Post-employment Benefits*

The present value of the liabilities (defined benefit obligation) of the Authority at 31 March is as follows:

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| **(1,479.5)** | **As at 1 April** | **(1,730.8)** |
| (33.8) | Current service cost | (42.2) |
| (63.0) | Interest Cost | (55.2) |
| (9.2) | Contributions by scheme participants | (9.1) |
| | Remeasurement (gains) and losses: | |
| 0.0 | Changes in demographic assumptions | 0.0 |
| (218.9) | Changes in financial assumptions | 235.4 |
| 11.7 | Other | 23.4 |
| | Past service costs: | |
| (0.6) | (Losses) / Gains on curtailments | (0.9) |
| 50.8 | Benefits paid | 50.7 |
| 11.7 | Liabilities extinguished on settlements | 6.2 |
| **(1,730.8)** | **As at 31 March** | **(1,522.5)** |

The fair value of the assets of the Authority at 31 March is as follows:

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| **876.2** | **As at 1 April** | **999.8** |
| 37.3 | Interest Income | 31.8 |
| | Remeasurement gain/(loss): | |
| 100.9 | Return on plan assets | (24.4) |
| 29.3 | Employer contributions | 32.6 |
| 9.2 | Contributions by scheme participants | 9.1 |
| (50.8) | Benefits paid | (50.7) |
| 3.2 | Contributions in respect of unfunded benefits | 3.2 |
| (5.5) | (Losses) / Gains on settlements | (2.6) |
| **999.8** | **As at 31 March** | **998.8** |

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Local Government Pension Scheme assets comprised:

| 2014/15 £m | 2014/15 % of total assets | | 2015/16 £m | 2015/16 % of total assets |
|---|---|---|---|---|
| | | Equity Securities: | | |
| 31.0 | 3% | Other | 27.3 | 3% |
| | | Debt Securities: | | |
| 54.9 | 5% | UK Government | 52.7 | 5% |
| 41.1 | 4% | Other | 41.1 | 4% |
| 37.9 | 4% | Private Equity | 38.3 | 4% |
| | | Real Estate: | | |
| 94.7 | 10% | UK Property | 101.7 | 10% |
| | | Investment Funds and Unit Trusts: | | |
| 504.1 | 51% | Equities | 490.0 | 49% |
| 93.1 | 9% | Bonds | 107.5 | 11% |
| 43.4 | 4% | Hedge Funds | 45.3 | 4% |
| 42.0 | 4% | Commodities | 21.5 | 2% |
| 23.6 | 2% | Infrastructure | 26.1 | 3% |
| 18.4 | 2% | Other | 27.6 | 3% |
| | | Derivatives | | |
| 5.6 | 1% | Interest rate | (0.3) | 0% |
| 10.0 | 1% | Cash and Cash Equivalents | 20.0 | 2% |
| **999.8** | **100%** | **As at 31 March** | **998.8** | **100%** |

The scheme history of the pension fund is as follows:

| | 2011/12 £m | 2012/13 £m | 2013/14 £m | 2014/15 £m | 2015/16 £m |
|---|---|---|---|---|---|
| Present value of liabilities: | (1,219.1) | (1,343.1) | (1,479.5) | (1,730.8) | (1,522.5) |
| Fair value of assets: | 780.3 | 845.5 | 876.2 | 999.8 | 998.8 |
| **Surplus / (Deficit)** | **(438.8)** | **(497.6)** | **(603.3)** | **(731.0)** | **(523.7)** |

The liability shows the underlying commitment that the Authority has in the long run to pay post-employment (retirement) benefits. This total liability of £523.7m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit will result in the deficit being made good by increased contributions by the employer, over the remaining working life of employees, as assessed by the actuary.

The figures in this note incorporate staff of the Eastern Shires Purchasing Organisation (ESPO) whose staff are employed by Leicestershire County Council but whose costs are excluded from these accounts as these costs are included in ESPO's own accounts.

### Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. The Authority's Pension fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the County Council fund being based on the latest full valuation of the Pension Fund as at 31st March 2013.

The principal assumptions used by the actuary have been:

| 31 March 2015 | | 31 March 2016 |
|---|---|---|
| | Mortality assumptions (in years): | |
| | Longevity at 65 for current pensioners: | |
| 22.2 | ▪ Men | 22.2 |
| 24.3 | ▪ Women | 24.3 |
| | Longevity at 65 for future pensioners: | |
| 24.2 | ▪ Men | 24.2 |
| 26.6 | ▪ Women | 26.6 |
| 2.4% | Rate of inflation | 2.2% |
| 4.3% | Rate of increases in salaries | 3.2% |
| 2.4% | Rate of increase in pensions | 2.2% |
| 3.2% | Rate for discounting scheme liabilities | 3.5% |
| | Proportion of employees opting to commute part of their annual pension to a retirement lump sum: | |
| 50% | Pre April 2008 Service | 50% |
| 75% | Post April 2008 Service | 75% |

The estimation of the defined benefit obligations is sensitive to actual assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, on an actuarial basis, using the projected credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in previous years.

Sensitivities regarding the principal assumptions used to measure the scheme liabilities at 31 March 2016:

| Approximate % Increase in Employer Liability | | Approximate monetary amount (£m) |
|---|---|---|
| 10% | 0.5% decrease in Real Discount Rate | 151.3 |
| 3% | 1 year increase in member life expectancy | 45.7 |
| 3% | 0.5% increase in the Salary Increase Rate | 39.5 |
| 7% | 0.5% increase in the Pension Increase Rate | 110.3 |

The impact of a change, either from increase to decrease or vice versa, would be as above but with the values being reversed.

***Pension Fund Risk Management Strategy***

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet the Fund's required cash flows.

These investment risks are managed as part of the overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Management Board and is monitored annually or more frequently if required.

Further details can be found within the Pension Fund Statement of Accounts, included at the end of this document.

***Impact on the Authority's Cash Flows***

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Authority has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The last triennial valuation was completed on 31 March 2013.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, The Local Government Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The authority anticipated to pay £31.7m expected contributions to the scheme in 2016/17.

The weighted average duration of the defined benefit obligation for scheme members is 17.8 years, 2015/16 (17.8 years 2014/15).

***c) Teachers and Lecturers***

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement. The Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by Local Authorities. The Authority is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2015/16 the Authority paid £8.6m (2014/15 £8.6m) to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 14.1% for the period April to August and then increasing to 16.4% September to March (2014/15 14.1%) of teachers' pensionable pay. This is also the amount recognised as an expense in the Comprehensive Income and Expenditure Statement with regards to this scheme. In addition, the Authority is responsible for all pension payments relating to pension enhancements for added years service it has awarded, together with the related increases. In 2015/16 these amounted to £2.1m (2014/15 £2.2m), representing 4.06% (2014/15 3.79%) of pensionable pay.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in note 14b.

### *d) Public Health*

Public Health staff who transferred to the Authority with effect from 1 April 2013 are and will continue to be members of the NHS pension scheme administered by NHS Pensions. Any new employees to the Authority since this transfer will be in the Local Government Pension Scheme (LGPS), administered locally by Leicestershire County Council.

The NHS pension scheme provides public health staff with specified benefits upon their retirement. The Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. However, the arrangements for NHS schemes mean that liabilities of these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if they are a defined contribution scheme and no liability for future payments of benefits is recognised in the balance sheet.

In 2015/16 the Authority paid £0.1m to the NHS pension scheme (£0.1m in 2014/15) in respect of public health staff. This amount is recognised as an expense in the CIES under the Public Health services line.

## Note 15: Property, Plant and Equipment, Intangible Assets and Assets Held for Sale

| | Land and Buildings | Vehicles Plant and Equipment | Infrastructure | Community Assets | Assets Under Construction | Surplus Assets | Total | Intangible Assets | Assets Held for Sale |
|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Net Book Value as at 31 March 2015** | **448.5** | **6.6** | **317.8** | **11.3** | **7.0** | **3.1** | **794.3** | **2.2** | **5.0** |
| Additions | 17.6 | 6.3 | 17.4 | 0.0 | 27.4 | 0.0 | 68.7 | 0.4 | 0.0 |
| Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve | 24.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 24.8 | 0.0 | 0.2 |
| Disposals | (15.7) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (15.7) | 0.0 | 0.0 |
| Transfers Between Asset Categories | 1.9 | 1.1 | 0.8 | 0.0 | (3.9) | 0.1 | 0.0 | 0.0 | 0.0 |
| Transfers To/From Investment Properties | (0.9) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.9) | 0.0 | 0.0 |
| Capital Expenditure Not Increasing Value | (4.5) | (0.5) | 0.0 | 0.0 | 0.0 | 0.0 | (5.0) | 0.0 | 0.0 |
| Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit | (10.5) | 0.0 | 0.0 | 0.0 | 0.0 | (0.1) | (10.6) | 0.0 | (0.4) |
| **Book Value as at 31 March 2016** | **461.0** | **13.5** | **336.0** | **11.3** | **30.5** | **3.3** | **855.6** | **2.6** | **4.8** |
| Depreciation written out to the Revaluation Reserve | (3.5) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (3.5) | 0.0 | 0.0 |
| Depreciation / Amortisation written out to the Surplus/ Deficit | (6.1) | (1.9) | (10.0) | 0.0 | 0.0 | 0.0 | (18.0) | (0.5) | 0.0 |
| Less: Writing down leased assets | (0.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 |
| **Net Book Value as at 31 March 2016** | **451.3** | **11.6** | **326.0** | **11.3** | **30.5** | **3.3** | **834.0** | **2.1** | **4.8** |

| | Land and Buildings £m | Vehicles Plant and Equipment £m | Infrastructure £m | Community Assets £m | Assets Under Construction £m | Surplus Assets £m | Total £m | Intangible Assets £m | Assets Held for Sale £m |
|---|---|---|---|---|---|---|---|---|---|
| **Net Book Value as at 31 March 2014** | **465.2** | **7.0** | **302.6** | **11.3** | **1.1** | **6.8** | **794.0** | **1.6** | **0.1** |
| Additions | 7.9 | 1.9 | 24.6 | 0.0 | 7.0 | 0.0 | 41.4 | 1.1 | 0.0 |
| Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve | 73.7 | 0.0 | 0.0 | 0.0 | 0.0 | 2.0 | 75.7 | 0.0 | 2.7 |
| Disposals | (61.8) | 0.0 | 0.0 | 0.0 | 0.0 | (0.5) | (62.3) | 0.0 | (0.2) |
| Transfers Between Asset Categories | (5.4) | 0.0 | 0.0 | 0.0 | (1.1) | 0.8 | (5.7) | 0.0 | 5.7 |
| Transfers To/From Investment Properties | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital Expenditure Not Increasing Value | (5.9) | (0.8) | 0.0 | 0.0 | 0.0 | 0.0 | (6.7) | 0.0 | 0.0 |
| Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit | (12.9) | 0.0 | 0.0 | 0.0 | 0.0 | (6.0) | (18.9) | 0.0 | (3.3) |
| **Book Value as at 31 March 2015** | **460.8** | **8.1** | **327.2** | **11.3** | **7.0** | **3.1** | **817.5** | **2.7** | **5.0** |
| Depreciation written out to the Revaluation Reserve | (4.4) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (4.4) | 0.0 | 0.0 |
| Depreciation / Amortisation written out to the Surplus/ Deficit | (7.8) | (1.5) | (9.4) | 0.0 | 0.0 | 0.0 | (18.7) | (0.5) | 0.0 |
| Less: Writing down leased assets | (0.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 |
| **Net Book Value as at 31 March 2015** | **448.5** | **6.6** | **317.8** | **11.3** | **7.0** | **3.1** | **794.3** | **2.2** | **5.0** |

### *Depreciation/Amortisation*

Where depreciation/amortisation is provided for, assets are depreciated/amortised using the straight line method over the following periods:

- Intangible assets – 5 years.
- Buildings – varies from asset to asset (the remaining useful economic life of each asset is reviewed at the same time as the revaluation is completed, new builds are usually estimated to have a useful life of 70 years).
- Infrastructure – 40 years.
- Vehicles, plant, furniture and equipment – estimated useful life (averaging around 5 years).
- Land, community assets, assets under construction, surplus assets and assets held for sale – are held at cost or market value or have an indefinite life and are not depreciated.

### *Capital Commitments*

At 31 March 2016, the Authority has entered into a number of contracts for the acquisition, construction or enhancement of Property, Plant and Equipment in 2016/17 and future years budgeted to cost £81.9m, (similar commitments at 31 March 2015 were to a value of £41.2m). The following table outlines the major contracts:

| Major Contract | £m |
|---|---|
| Additional Primary School Places | 13.8 |
| Wigston New Special School | 11.0 |
| Extra Care Loughborough | 1.0 |
| M1 Bridge To Growth Lubbesthorpe | 6.5 |
| Zouch Bridge Replacement | 2.8 |
| Street Lighting LED Installation | 18.0 |
| M1 Junction 22 Improvements | 2.1 |
| Leicester North West Major Transport Scheme | 14.4 |
| Hinckley Area Approach Zones 3&4 | 3.2 |
| Rural Broadband Scheme Phase 2 | 9.1 |

### *Academies, Church and Other Schools*

Schools which have converted to Academies, and where the assets are owned by the Authority, have taken the assets on 125 year finance leases. The buildings have not been included in the Balance Sheet, and therefore no capital charges will have been applied to the accounts. The following table shows the number and amounts written out of the Authority's Balance Sheet for Academies.

| Financial Year | Number of Schools | 31 March £m |
|---|---|---|
| 2011/12 | 16 | 65.4 |
| 2012/13 | 82 | 181.1 |
| 2013/14 | 25 | 54.2 |
| 2014/15 | 21 | 59.8 |
| 2015/16 | 5 | 13.4 |
| **Total** | **149** | **373.9** |

Church and Other schools, which are not owned by the Authority, have not been included in the Balance Sheet, and therefore no capital charges will have been applied to the accounts.

### *Revaluations*

The Authority carries out a rolling programme that ensure that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally by qualified Royal Institution of Chartered Surveyors (RICS) qualified Valuers. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of RICS. Accounting Policy 6 within Note 49 to the accounts provides further details.

| | Land and Buildings £m | Surplus Assets £m | Total £m |
|---|---|---|---|
| Carried at Historical Cost | 17.6 | 0.0 | 17.6 |
| Valued at Fair Value as at: | | | |
| 31 March 2016 | 202.0 | 1.3 | 203.3 |
| 31 March 2015 | 201.3 | 2.0 | 203.3 |
| 31 March 2014 | 20.3 | 0.0 | 20.3 |
| 31 March 2013 | 4.0 | 0.0 | 4.0 |
| 31 March 2012 | 6.1 | 0.0 | 6.1 |
| **Total Cost or Valuation** | **451.3** | **3.3** | **454.6** |

### *Current Intangible Assets*

The Authority holds £0.6m of intangible current assets (£0.5m 2014/15). The total of current intangible assets is comprised solely of landfill allowance credits. These allowances convey the Authority's right to divert amounts of bio-degradeable waste to landfill as part of the Landfill Allowance Trading Scheme (LATS) as established via the Department for Environment and Rural Affairs (DEFRA).

### *Non-Current Intangible Assets*

The Authority has non-current intangible assets of £2.1m (£2.2m 2014/15). This includes ICT software licences required to support and safeguard the ICT systems operated by the Authority.

### *Fair Value Hierarchy*

The Authority's surplus property portfolio has been assessed as Level 2 for valuation purposes. Please refer to Note 49 for further details concerning fair value and the input hierarchy.

| | 2015/16 | | |
|---|---|---|---|
| | £m | £m | £m |
| **Surplus Properties** | **Level 1** *Quoted Prices in Active Markets for Identical Assets* | **Level 2** *Other Significant Observable Inputs* | **Level 3** *Significant Unobservable Inputs* |
| Former School Sites | | 2.0 | |
| Highway Land | | 1.3 | |
| **Total** | | **3.3** | |

| | 2014/15 | | |
|---|---|---|---|
| | £m | £m | £m |
| **Surplus Properties** | **Level 1** *Quoted Prices in Active Markets for Identical Assets* | **Level 2** *Other Significant Observable Inputs* | **Level 3** *Significant Unobservable Inputs* |
| Highway Land | | 1.1 | |
| Former School Sites | | 2.0 | |
| **Total** | | **3.1** | |

## Note 16: Heritage Assets

| | Art Collection £m | Archaeo-logical Collection £m | Fashion Collection £m | Working Life Collection £m | Civic Collection £m | Total £m |
|---|---|---|---|---|---|---|
| **Net book value as at 31 March 2014** | **2.9** | **0.4** | **0.1** | **0.8** | **0.2** | **4.4** |
| Additions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Capital expenditure not increasing value Depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| **Net Book Value as at 31 March 2015** | **2.9** | **0.4** | **0.1** | **0.8** | **0.2** | **4.4** |
| Additions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | **0.1** |
| Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Capital expenditure not increasing value | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| **Net Book Value as at 31 March 2016** | **2.9** | **0.4** | **0.1** | **0.9** | **0.2** | **4.5** |

As per the accounting policy for Heritage Assets within note 49, assets and additions are initially recognised at cost. Revaluations are based on specialist or insurance valuations. There have been no material additions and no disposals in 2015/16. Due to this, a summary of the movements in Heritage Assets would show no movements. Sale proceeds are accounted for in accordance with statutory requirements as these assets would meet the definition of a capital receipt.

## Note 17: Investment Property

The Authority has recently implemented a commercialisation agenda as part of the Medium Term Financial Strategy. On review of the asset portfolio, six properties have been reclassified in year from land and buildings to investment property. These assets are held specifically to generate rental income and/or for capital appreciation and are considered within the scope of *IFRS 13 Fair Value* measurement.

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 0.0 | Rental Income From Investment Property | (0.1) |
| 0.0 | Direct Operating Expenses | 0.0 |
| **0.0** | **(Surplus) / Deficit** | **(0.1)** |

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to maintain, enhance or develop investment properties.

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

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| **0.0** | **Opening Balance as at 1st April** | **0.0** |
| 0.0 | Additions - Purchases | 0.0 |
| 0.0 | Additions - Construction | 0.0 |
| 0.0 | Additions - Subsequent Expenditure | 0.0 |
| 0.0 | Disposals | 0.0 |
| 0.0 | Gain/Loss From Fair Value Adjustments | 0.0 |
| | Transfers: | |
| 0.0 | (To)/From Inventory | 0.0 |
| 0.0 | (To)/From Property, Plant & Equipment | 0.9 |
| **0.0** | **Closing Balance as at 31st March** | **0.9** |

As at the 31st March 2016 no investment properties are classified as assets held for sale.

### *Fair Value Hierarchy*

The Authority's investment property portfolio has been assessed as Level 2 for valuation purposes. Note 49 provides details of fair value and the input level hierarchy as specified by IFRS 13.

| | 2015/16 | | |
|---|---|---|---|
| | £m | £m | £m |
| **Investment Properties** | **Level 1** *Quoted Prices in Active Markets for Identical Assets* | **Level 2** *Other Significant Observable Inputs* | **Level 3** *Significant Unobservable Inputs* |
| Residential Properties | | 0.4 | |
| Commercial Units | | 0.4 | |
| Other | | 0.1 | |
| **Total** | | **0.9** | |

### *Valuation Techniques*

In estimating the fair value of the Authority's investment properties, the highest and best use is deemed to be their current value.

The investment property portfolio has been measured using the market approach. This valuation technique maximises the use of prices (rent values) and relevant observable inputs such as information generated from comparable market transactions to reach suitable valuation. The objective of this technique is to estimate the price at which an orderly transaction to sell an asset or transfer a liability would take place between market participants at the measurement date under current market conditions.

### *Valuers*

The investment property portfolio has been valued in accordance with the methodologies and bases for estimation as set out in the professional standards and valuation manual of the Royal Institution of Chartered Surveyors (RICS). Investment property valuations are undertaken annually by Principal Valuers within the Commissioning Estates section of the Authority's Corporate Resources Department in accordance with the prescribed standards.

In the case of commercial units a specialist fair value valuation was obtained from independent industry experts. This asset was valued by Nick Arden BA (Hons) (MSc) (MRICS) of Colliers International Valuation UK LLP.

## Note 18: Financial Instruments

The borrowings, investments, debtors, creditors, finance lease liabilities and cash are disclosed in the Balance Sheet and consist of the following categories of financial instrument:

| 31 March 2015 Long Term £m | 31 March 2015 Current £m | | 31 March 2016 Long Term £m | 31 March 2016 Current £m |
|---|---|---|---|---|
| | | **Financial Assets (Investments):** | | |
| 0.0 | 80.7 | Loans and Receivables | 0.0 | 142.4 |
| 0.0 | 0.0 | Avaliable for Sale Financial Assets | 14.1 | 0.0 |
| **0.0** | **80.7** | **Total Investments** | **14.1** | **142.4** |
| | | **Debtors:** | | |
| 53.6 | 0.0 | Loans and Receivables | 50.0 | 0.0 |
| 0.0 | 63.9 | Financial Assets carried at contract amounts | 0.0 | 71.8 |
| **53.6** | **63.9** | **Total Included In Debtors** | **50.0** | **71.8** |
| | | **Financial Liabilities (Borrowings):** | | |
| 215.1 | 15.1 | at Amortised Cost | 214.6 | 3.9 |
| 63.0 | 0.0 | at Fair Value | 62.9 | 0.0 |
| **278.1** | **15.1** | **Total Borrowings** | **277.5** | **3.9** |
| **1.5** | **0.0** | **Total Financial Lease Liabilities** | **1.5** | **0.0** |
| **14.8** | **84.7** | **Total Financial Liabilities (Creditors - carried at contract amount)** | **15.5** | **102.8** |
| **0.0** | **91.5** | **Total Cash and Cash Equivalents** | **0.0** | **43.0** |

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

| 2014/15 At Amortised Cost £m | 2014/15 At Fair Value £m | Financial Liabilities | 2015/16 At Amortised Cost £m | 2015/16 At Fair Value £m |
|---|---|---|---|---|
| 13.3 | 2.7 | **Total Interest Paid** | 13.2 | 2.7 |

| 2014/15 Loans and Receivables £m | 2014/15 At Fair Value £m | Financial Assets | 2015/16 Loans and Receivables £m | 2015/16 At Fair Value £m |
|---|---|---|---|---|
| 1.5 | 0.0 | **Total Interest Received** | 1.9 | 0.0 |

### *Fair Value of Assets and Liabilities carried at Amortised Cost*

Financial liabilities and financial assets represented by Borrowings and Investments are carried in the Balance Sheet at amortised cost or fair value. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments using the following assumptions:

- PWLB and Market debt; estimated interest rates at 31 March 2016 for new debt with the same maturity date from comparable lenders.
- Investments; long term – estimated interest rates at 31 March 2016 for equivalent loans.
- Investments; short term – carrying amounts in the Balance Sheet approximate to fair value.

The fair values calculated are as follows:

| | 31 March 2016 Carrying Amount £m | 31 March 2016 At Fair Value £m |
|---|---|---|
| **Financial Liabilities** | 281.5 | 437.6 |
| **Financial Assets** | 177.0 | 185.7 |

The fair value of financial liabilities is more than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest payable is higher than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the Authority would have to pay if the lenders requested or agreed to early repayment of the loans.

Financial assets - fair value is higher than the carrying amount because the Authority holds investments where the interest rate is higher than current market rate.

### *Fair Value Hierarchy*

The Authority's financial assets and liabilities have been assessed as Level 2 for valuation purposes. Note 49 provides an explanation of fair value and the input level hierarchy.

| | 2015/16 | | |
|---|---|---|---|
| | £m | £m | £m |
| **Fair Value** | **Level 1** *Quoted Prices in Active Markets for Identical Assets* | **Level 2** *Other Significant Observable Inputs* | **Level 3** *Significant Unobservable Inputs* |
| Financial Assets | | 185.5 | |
| Financial Liabilities | | (429.0) | |
| **Total** | | **(243.5)** | |

| | 2014/15 | | |
|---|---|---|---|
| | £m | £m | £m |
| **Fair Value** | **Level 1** *Quoted Prices in Active Markets for Identical Assets* | **Level 2** *Other Significant Observable Inputs* | **Level 3** *Significant Unobservable Inputs* |
| Financial Assets | | 174.4 | |
| Financial Liabilities | | (442.9) | |
| **Total** | | **(268.5)** | |

## Note 19: Inventories

| | Leicestershire Highways (stores) | Road Salt | School Food (consumables) | Sub-total | Other (less than £0.1m)* | Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Opening Balance 31 March 2015** | **0.5** | **0.3** | **0.2** | **1.0** | **0.4** | **1.4** |
| Purchases | 4.9 | 0.5 | 3.5 | **8.9** | 0.0 | **8.9** |
| Recognised as an expense during the year | (4.1) | (0.4) | (3.5) | **(8.0)** | (0.1) | **(8.1)** |
| Written in balance | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 | **0.0** |
| Written off balances | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 | **0.0** |
| Reversal of write-offs in previous years | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 | **0.0** |
| **Closing Balance 31 March 2016** | **1.3** | **0.4** | **0.2** | **1.9** | **0.3** | **2.2** |

## Note 20: Long Term Debtors

| 31 March 2015 £m | | 31 March 2016 £m |
|---|---|---|
| | **Long Term Debtors (amounts falling due after one year)** | |
| 36.2 | Outstanding debt relating to transferred services (e.g. Unitary Authority, Police, ESPO) | 34.1 |
| 8.4 | Local Authority Mortgage Scheme | 8.4 |
| 4.0 | Residential Care Charges (secured against properties) | 2.6 |
| 5.0 | Other Long Term Debtors | 4.9 |
| **53.6** | **Total Long Term Debtors** | **50.0** |

**Local Authority Mortgage Scheme** - during 2013/14 the Authority advanced a further £3m (2012/13 £5.4m) to Lloyds TSB to make it easier for first time buyers to obtain mortgages, thus stimulating the local housing market and benefiting the wider local economy. The advance has been funded through earmarked revenue reserves (included within Direct Revenue Contributions in the table above). The advances will be repaid after five years' time (£5.4m in 2017/18 and £3.0m in 2018/19).

## Note 21: Short Term Debtors

| 31 March 2015 £m | | | | 31 March 2016 £m | | |
|---|---|---|---|---|---|---|
| Debtors | Payments in Advance | Total | | Debtors | Payments in Advance | Total |
| 9.3 | 0.0 | 9.3 | Central Government Bodies | 13.9 | 0.0 | 13.9 |
| 4.9 | 0.1 | 5.0 | Other Local Authorities | 7.1 | 0.1 | 7.2 |
| 0.9 | 0.0 | 0.9 | NHS Bodies | 0.9 | 0.0 | 0.9 |
| 1.2 | 0.1 | 1.3 | Public Corps & Trading Funds | 1.5 | 0.0 | 1.5 |
| 38.2 | 9.2 | 47.4 | Other Entities & Individuals | 36.5 | 11.8 | 48.3 |
| **54.5** | **9.4** | **63.9** | **Total Short Term Debtors** | **59.9** | **11.9** | **71.8** |

## Note 22: Cash & Cash Equivalents

| 31 March 2015 £m | | 31 March 2016 £m |
|---|---|---|
| | **Net Cash Balance at Year End:** | |
| 0.4 | School & Imprest Accounts | 0.2 |
| (1.2) | Main Bank Accounts | 0.8 |
| **(0.8)** | **Subtotal Cash In Hand / (Overdrawn)** | **1.0** |
| 7.3 | Service User Funds Bank Account* | 6.1 |
| 85.0 | Short-Term Deposits with Banks and Building Societies | 35.9 |
| **91.5** | **Total Cash and Cash Equivalents** | **43.0** |

* Service user funds are held in a separate bank account and represent un-invested cash held on behalf of residents in care homes.

## Note 23: Long Term Creditors

| 31 March 2015 £m | | 31 March 2016 £m |
|---|---|---|
| | **Amounts Received in Advance: (more than one years)** | |
| 1.0 | Regional Growth Fund | 0.8 |
| 1.7 | Section 106 Housing Developer Revenue Contributions | 2.8 |
| **2.7** | **Total Long Term Creditors** | **3.6** |

## Note 24: Short Term Creditors

| 31 March 2015 £m | | | | 31 March 2016 £m | | |
|---|---|---|---|---|---|---|
| **Creditors** | **Receipts in Advance** | **Total** | | **Creditors** | **Receipts in Advance** | **Total** |
| 11.9 | 0.3 | 12.2 | Central Government Bodies | 11.9 | 1.5 | 13.4 |
| 3.1 | 2.8 | 5.9 | Other Local Authorities | 5.4 | 2.0 | 7.4 |
| 1.6 | 0.2 | 1.8 | NHS Bodies | 2.5 | 0.3 | 2.8 |
| 0.6 | 0.0 | 0.6 | Public Corps & Trading Funds | 0.5 | 0.0 | 0.5 |
| 52.5 | 10.1 | 62.6 | Other Entities & Individuals | 68.1 | 9.5 | 77.6 |
| **69.7** | **13.4** | **83.1** | **Total Short Term Creditors** | **88.4** | **13.3** | **101.7** |

# Note 25: Provisions

| Short Term | 31 March 2015 £m | Additional Provisions £m | Provisions Used £m | 31 March 2016 £m |
|---|---|---|---|---|
| Non Domestic Rates | 1.6 | 0.6 | 0.0 | 2.2 |
| Insurance | 0.4 | 0.3 | (0.4) | 0.3 |
| CRC Liability | 0.4 | 0.0 | (0.1) | 0.3 |
| Other | 0.8 | 0.6 | (0.6) | 0.8 |
| **Total Short Term Provisions** | **3.2** | **1.5** | **(1.1)** | **3.6** |

| Long Term | 31-Mar-15 £m | Additional Provisions £m | Provisions Used £m | 31-Mar-16 £m |
|---|---|---|---|---|
| Insurance | 5.2 | 0.0 | (0.8) | 4.4 |
| A&C Mental Health Refunds | 0.5 | 0.0 | (0.5) | 0.0 |
| Leased Car Provision | 0.1 | 0.3 | (0.3) | 0.1 |
| **Total Long Term Provisions** | **5.8** | **0.3** | **(1.6)** | **4.5** |

| | | | | |
|---|---|---|---|---|
| **Total Provisions** | **9.0** | **1.8** | **(2.7)** | **8.1** |

## Details of Provisions Held:

***Non Domestic Rate Appeals (LCC Share)***
The provision represents the Authority's proportionate share, on an agency basis, of all Leicestershire billing authorities Non Domestic Rate arrears.

***Insurance***
The insurance policies held by the Authority require a significant level of self insurance, the level of this being recommended by independent advisers. The monies set aside for self insurance are split between a provision representing outstanding, unsettled claims at 31 March 2016 and a reserve to meet future claims. The provision is expected to be used within the next seven years. The Insurance provision includes Public/Employers Liability, Fire and Uninsured Losses.

***Carbon Reduction Commitment (CRC) Liability***
Provision established to fund the purchase of CRC allowances that are based on emissions, i.e. carbon dioxide produced as energy is used.

***Leased Car Provision***
The provision sum matches the difference between the termination costs and the sale proceeds at the end of the lease period.

# Note 26: Reconciliation of the Surplus on the Comprehensive Income and Expenditure Statement to Revenue Activities Cash Flow

| Restated 2014/15 £m | | | 2015/16 £m | |
|---|---|---|---|---|
| | | **Non cash transactions:** | | |
| 0.7 | | Movement on provisions | 0.8 | |
| (22.7) | | Movement on pensions (IAS 19) | (28.1) | |
| (52.5) | | Depreciation of fixed assets and impairment | (38.1) | |
| (59.6) | | Gain or Loss on disposal of non-current assets (Incl Academies) | (12.5) | |
| 0.2 | | Movement on Financial Instruments Adjustment Account | 0.2 | |
| 0.6 | | Movement on the Collection Fund Adjustment Account | 1.2 | |
| | (133.3) | | | (76.5) |
| | | **Revenue items on an accruals basis:** | | |
| 12.8 | | Change in creditors | | (17.7) |
| (2.8) | | Change in long term creditors | | (0.9) |
| (9.6) | | Change in debtors | | 11.5 |
| (1.3) | | Change in long term debtors | | (3.6) |
| 0.1 | | Change in Inventories | | 0.8 |
| 0.5 | | Change in Intangible Current Assets | | 0.1 |
| | (0.3) | | | (9.8) |
| | **(133.6)** | **Total adjustments to net surplus or deficit on the provision of services on non cash movements:** | | **(86.3)** |
| | | **Items classified elsewhere in the statement:** | | |
| (0.1) | | Movement in Accrued Interest | | 0.4 |
| (12.6) | | Servicing of finance | | (12.1) |
| 0.0 | | Movement on the Available for Sale Financial Instruments Reserve | | 0.9 |
| 38.8 | | Capital Grants Received | | 64.8 |
| | **26.1** | **Total adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities** | | **54.0** |

## Note 27: Cash Flow Statement - Operating Activities

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| (3.7) | Interest received | (4.0) |
| 16.3 | Interest Paid | 16.1 |
| **12.6** | **Net Cash Flows from Operating Activities** | **12.1** |

## Note 28: Cash Flow Statement - Investing Activities

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 38.8 | Purchase of property, plant and equipment, investment property and intangible assets | 65.5 |
| (22.9) | Purchase of short-term and long-term investments | 75.4 |
| (2.9) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (3.2) |
| (38.8) | Capital Grants and Contributions | (64.8) |
| (0.5) | Other receipts from investing activities | (1.2) |
| **(26.3)** | **Net Cash Flows from Investing Activities** | **71.7** |

## Note 29: Cash Flow Statement - Financing Activities

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 0.0 | Cash receipts of short-term and long-term borrowing | (0.2) |
| 8.0 | Repayments of short-term and long-term borrowing | 11.8 |
| **8.0** | **Net Cash Flows from Financing Activities** | **11.6** |

# Note 30: Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement (CIES) is that specified by the Service Reporting Code of Practice.

However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across departments. These reports are prepared on a different basis from the accounting policies used for the financial statements. In particular:

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

***Income & Expenditure 2015/16***

| | 2015/16 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **C&FS £m** | **A&C £m** | **E&T £m** | **Public Health £m** | **Corporate Resources £m** | **Chief Executives £m** | **Total £m** |
| Fees, Charges and Other Service Income | (35.4) | (79.1) | (25.2) | (2.2) | (31.7) | (9.2) | **(182.8)** |
| Grants | (193.1) | (9.9) | (1.6) | (23.6) | (1.1) | (0.5) | **(229.8)** |
| **Total Income** | **(228.5)** | **(89.0)** | **(26.8)** | **(25.8)** | **(32.8)** | **(9.7)** | **(412.6)** |
| Employee Expenses | 141.6 | 47.7 | 19.9 | 3.1 | 44.4 | 11.6 | **268.3** |
| Other Operating Expenses | 143.6 | 171.0 | 77.6 | 22.7 | 22.7 | 10.8 | **448.4** |
| Support Service Recharges | 24.2 | 20.9 | (10.0) | 0.7 | (34.0) | (1.8) | **0.0** |
| **Total Expenses** | **309.4** | **239.6** | **87.5** | **26.5** | **33.1** | **20.6** | **716.7** |
| **Net Cost of Services** | **80.9** | **150.6** | **60.7** | **0.7** | **0.3** | **10.9** | **304.1** |

*Income & Expenditure 2014/15 Comparative Figures*

| | 2014/15 | | | | | | |
|---|---|---|---|---|---|---|---|
| | C&FS £m | A&C £m | E&T £m | Public Health £m | Corporate Resources £m | Chief Executives £m | Total £m |
| Fees, Charges and Other Service Income | (20.4) | (72.4) | (23.6) | (3.0) | (28.1) | (6.0) | **(153.5)** |
| Grants | (195.8) | (5.3) | (1.7) | (21.9) | (1.5) | (2.9) | **(229.1)** |
| **Total Income** | **(216.2)** | **(77.7)** | **(25.3)** | **(24.9)** | **(29.6)** | **(8.9)** | **(382.6)** |
| Employee Expenses | 147.0 | 48.0 | 18.8 | 2.5 | 44.3 | 13.8 | **274.4** |
| Other Operating Expenses | 126.5 | 167.3 | 82.9 | 22.3 | 21.2 | 9.0 | **429.2** |
| Support Service Recharges | 24.5 | 20.4 | (9.0) | 0.7 | (34.7) | (1.9) | **0.0** |
| **Total Expenses** | **298.0** | **235.7** | **92.7** | **25.5** | **30.8** | **20.9** | **703.6** |
| **Net Cost of Services** | **81.8** | **158.0** | **67.4** | **0.6** | **1.2** | **12.0** | **321.0** |

| **Key:** | |
|---|---|
| C&FS | Children and Family Services Department |
| A&C | Adults and Communities Department |
| E&T | Environment and Transport Department |

The Income and Expenditure tables above show the Authority's Income and Expenditure by Service area.

***Reconciliation of Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement (CIES)***

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

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 321.0 | Net Cost of Services in the Service Analysis | 304.1 |
| 0.0 | Net Expenditure of Services Not Included in the Main Analysis | 0.0 |
| 55.5 | Amounts in the Comprehensive Income and Expenditure Statement Not Reported in Service Management Accounts | 49.7 |
| 4.6 | Amounts Reported to Management Not Included in the Comprehensive Income and Expenditure Statement | 7.8 |
| **381.1** | **Net Cost of Services in Comprehensive Income and Expenditure Statement** | **361.6** |

### Reconciliation to Subjective Analysis 2015/16

| | Service Analysis £m | Not Reported in Management Accounts £m | Not Included in CIES £m | Net Cost of Services (Sub-Total) £m | Corporate Accounts £m | Total £m |
|---|---|---|---|---|---|---|
| Fees, Charges & Other Service Income | (180.2) | (5.8) | 29.0 | (157.0) | 0.0 | **(157.0)** |
| Interest and Investment Income | 0.0 | 0.0 | 0.0 | 0.0 | (4.0) | **(4.0)** |
| Income from Council Tax | 0.0 | 0.0 | 0.0 | 0.0 | (233.4) | **(233.4)** |
| Government Grants | (229.8) | 0.0 | 0.0 | (229.8) | (190.9) | **(420.7)** |
| **Total Income** | **(410.0)** | **(5.8)** | **29.0** | **(386.8)** | **(428.3)** | **(815.1)** |
| Employee Expenses | 268.3 | 0.0 | 0.0 | 268.3 | 0.0 | **268.3** |
| Other Service Expenses | 445.8 | 0.0 | (15.1) | 430.7 | 0.0 | **430.7** |
| Profit or Loss on Disposal of Fixed Assets | 0.0 | 0.0 | 0.0 | 0.0 | 12.5 | **12.5** |
| Depreciation, Amortisation, Impairment and Capital Financing Charges | 0.0 | 45.5 | (6.1) | 39.4 | 0.0 | **39.4** |
| IAS 19 and Other Pension Cost Adjustments | 0.0 | 11.6 | 0.0 | 11.6 | 23.4 | **35.0** |
| Prior Year Adjustments | 0.0 | (1.5) | 0.0 | (1.5) | 0.0 | **(1.5)** |
| Interest Payments | 0.0 | 0.0 | 0.0 | 0.0 | 15.9 | **15.9** |
| Precepts & Levies | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | **0.3** |
| (Surplus) or Deficit on Trading Accounts | 0.0 | (0.1) | 0.0 | (0.1) | 0.0 | **(0.1)** |
| **Total Operating Expenses** | **714.1** | **55.5** | **(21.2)** | **748.4** | **52.1** | **800.5** |
| **(Surplus)/Deficit on the Provision of Services** | **304.1** | **49.7** | **7.8** | **361.6** | **(376.2)** | **(14.6)** |

- ***Reconciliation to Subjective Analysis 2014/15 Comparison***

| | Service Analysis £m | Not Reported in Management Accounts £m | Not Included in CIES £m | Net Cost of Services (Sub-Total) £m | Corporate Accounts £m | Total £m |
|---|---|---|---|---|---|---|
| Fees, Charges & Other Service Income | (153.5) | (8.8) | 19.9 | (142.4) | 0.0 | **(142.4)** |
| Interest and Investment Income | 0.0 | 0.0 | 0.0 | 0.0 | (3.7) | **(3.7)** |
| Income from Council Tax | 0.0 | 0.0 | 0.0 | 0.0 | (224.0) | **(224.0)** |
| Government Grants | (229.1) | 0.0 | 0.0 | (229.1) | (181.3) | **(410.4)** |
| **Total Income** | **(382.6)** | **(8.8)** | **19.9** | **(371.5)** | **(409.0)** | **(780.5)** |
| Employee Expenses | 274.4 | 0.0 | 0.0 | 274.4 | 0.0 | **274.4** |
| Other Service Expenses | 429.2 | 1.1 | (10.9) | 419.4 | 0.0 | **419.4** |
| Profit or Loss on Disposal of Fixed Assets | 0.0 | 0.0 | 0.0 | 0.0 | 59.6 | **59.6** |
| Depreciation, Amortisation, Impairment and Capital Financing Charges | 0.0 | 58.2 | (4.4) | 53.8 | 0.0 | **53.8** |
| IAS 19 and Other Pension Cost Adjustments | 0.0 | 7.2 | 0.0 | 7.2 | 25.8 | **33.0** |
| Prior Year Adjustments | 0.0 | (2.3) | 0.0 | (2.3) | 0.0 | **(2.3)** |
| Interest Payments | 0.0 | 0.0 | 0.0 | 0.0 | 16.3 | **16.3** |
| Precepts & Levies | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | **0.3** |
| Surplus or Deficit on Trading Accounts | 0.0 | 0.1 | 0.0 | 0.1 | 0.7 | **0.8** |
| **Total Operating Expenses** | **703.6** | **64.3** | **(15.3)** | **752.6** | **102.7** | **855.3** |
| **(Surplus)/Deficit on the Provision of Services** | **321.0** | **55.5** | **4.6** | **381.1** | **(306.3)** | **74.8** |

# Note 31: Trading Operations

### *Operations*

During the year the Authority operated three separate accounts, which undertake trading activities of a material nature.

### *a) Leicestershire Highways*

Leicestershire Highways is a business unit of the Environment and Transport Department and its principal activities cover the maintenance and improvement of principal and county roads, the maintenance and erection of street lighting and the operation and maintenance of vehicles and plant.

### *b) Industrial Properties*

Leicestershire Authority property services provide direct services to the local economy through the letting of industrial units to local businesses.

### *Income and Expenditure*

| | Leicestershire Highways £m | Industrial Properties £m | Total £m |
|---|---|---|---|
| Income | (27.7) | (2.5) | (30.2) |
| Expenditure | 28.6 | 1.3 | 29.9 |
| **(Surplus)/Deficit in 2015/16** | **0.9** | **(1.2)** | **(0.3)** |
| **(Surplus)/Deficit in 2014/15** | **0.5** | **(0.5)** | **0.0** |

In order to satisfy the requirements of competition, recharges for all work done by a trading operation in competition with the private sector have been priced to include a cost of capital recovery. The IFRS Code of Practice does not permit charges for cost of capital to be debited to trading accounts. If the cost of capital had been charged to Leicestershire Highways the net position would have been a deficit of £1.1m (2014/15 £0.8m).

## Note 32: Pooled Budgets

The Authority's Adults and Communities department participates in four pooled budget arrangements with local health authorities, the details of which are outlined below.

a) *Integrated Community Equipment Service.* The other members that contribute to this pool are Leicester City Council, Rutland County Council, NHS West Leicestershire Clinical Commissioning Group, NHS East Leicestershire and Rutland Clinical Commissioning Group and NHS Leicester City Clinical Commissioning Group. Leicester City Council acts as the host authority. The Authority contributed £1.5m (2014/15 £1.7m) to the pool. The memorandum account shows total expenditure of £6.5m (2014/15 £8.3m) and gross income of £6.5m (2014/15 £8.3m). Funding commenced in 2005/06 and the partners have agreed to commission this service until March 2021.

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| | **Funding Provided to the Pooled Budget** | |
| 1.7 | Leicestershire County Council | 1.5 |
| 6.6 | Clinical Commissioning Groups / Leicester City Council / Rutland County Council | 5.0 |
| **8.3** | **Total** | **6.5** |
| | **Expenditure Met from the Pooled Budget** | |
| 1.7 | Leicestershire County Council | 1.5 |
| 6.6 | Clinical Commissioning Groups / Leicester City Council / Rutland County Council | 5.0 |
| **8.3** | **Total** | **6.5** |
| **0.0** | **Net Position on the Pooled Budget** | **0.0** |

b) *The provision of services for adults with learning disabilities*. Partners who contribute to this pool are NHS West Leicester Clinical Commissioning Group and NHS East Leicestershire and Rutland Clinical Commissioning Group. Leicestershire County Council acts as host to the arrangement. The Authority contributed £12.2m (2014/15 £11.0m) to the pool. The memorandum account shows total expenditure of £24.2m (2014/15 £22.0m) and gross income from the partners of £24.2m (2014/15 £22.0m). Any net over/underspend arising on the pooled budget is paid by/returned to the partners through revised contributions to the pool. Funding for this service commenced in 2005/06. Partners have a pooled budget agreement in place operated under section 75 of the NHS Act 2006. This agreement expires in March 2018.

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| | **Funding Provided to the Pooled Budget** | |
| 11.0 | Leicestershire County Council | 12.2 |
| 11.0 | Clinical Commissioning Groups | 12.0 |
| **22.0** | **Total** | **24.2** |
| | **Expenditure Met from the Pooled Budget** | |
| 11.0 | Leicestershire County Council | 12.2 |
| 11.0 | Clinical Commissioning Groups | 12.0 |
| **22.0** | **Total** | **24.2** |
| **0.0** | **Net Position on the Pooled Budget** | **0.0** |

c) *The Better Care Fund*. On the 1st April 2015, the Authority's Adults and Communities Department entered into a mandatory pooled budget arrangement under Section 75 of the NHS Act 2006 with NHS West Leicestershire Clinical Commissioning Group and NHS East Leicestershire and Rutland Clinical Commissioning Group for the Better Care Fund. The Better Care Fund provides the financial support to local authorities and the NHS to jointly plan and deliver local services, Leicestershire County Council is the host authority. The Authority Contributed £3.1m into the pool. The memorandum account shows total expenditure of £37.3m and gross income of £37.3m. National conditions issued by NHS England stipulate that the Better Care Fund pooled budget agreement is reviewed annually.

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| | **Funding Provided to the Pooled Budget** | |
| - | Leicestershire County Council | 3.1 |
| - | Clinical Commissioning Groups | 34.2 |
| **n/a** | **Total** | **37.3** |
| | **Expenditure Met from the Pooled Budget** | |
| - | Leicestershire County Council | 3.1 |
| - | Clinical Commissioning Groups | 34.2 |
| **n/a** | **Total** | **37.3** |
| **0n/a** | **Net Position on the Pooled Budget** | **0.0** |

d) *Provision of Drugs and Alcohol Support Service.* The other partners who contribute to the pooled budget are Leicester City Council, Rutland County Council, Leicestershire Police and Crime Commissioner and NHS England. Leicester City Council acts as the host Authority and the lead commissioner of services to providers. The aim of the pool arrangement is to assist persons suffering with additions through procurement and commissioning of support services. The Authority contributed £0.9m (£0.9m 2014/15) to the pool.

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| | **Funding Provided to the Pooled Budget** | |
| (0.9) | Leicestershire County Council | (0.9) |
| (6.3) | Leicester City Council | (6.3) |
| (0.1) | Rutland County Council | (0.1) |
| (0.5) | Police and Crime Commissioner | (0.5) |
| (0.6) | NHS England | (0.6) |
| (1.0) | Leicester PCT | (0.0) |
| **(9.4)** | **Total** | **(8.4)** |
| | **Expenditure Met from the Pooled Budget** | |
| 0.9 | Leicestershire County Council | 0.9 |
| 6.3 | Leicester City Council | 6.3 |
| 0.1 | Rutland County Council | 0.1 |
| 0.5 | Police and Crime Commissioner | 0.5 |
| 0.6 | NHS England | 0.6 |
| 1.0 | Leicester PCT | 0.0 |
| **9.4** | **Total** | **8.4** |
| **0.0** | **Net Position on the Pooled Budget** | **0.0** |

## Note 33: Members' Allowances

Amounts were paid to members of the Authority as follows:

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 0.7 | Basic Allowance | 0.7 |
| 0.3 | Special Responsibility Allowance | 0.3 |
| 0.1 | Other Expenses | 0.1 |
| **1.1** | **Total** | **1.1** |

## Note 34: Officers' Remuneration

**a)** The Accounts and Audit (England) Regulations 2015 require the Authority to disclose remuneration for all employees earning over £50,000, plus additional disclosure for those senior officers reporting directly to the Chief Executive and whom have the power to direct or control the major activities of the Authority.

| Post holder Information (Post title) | Salary £000 | Compen-sation for loss of office £000 | Benefits in kind £000 | Total Remuneration Excl. Employers Pension Contribution £000 | Employers Pension Contributions £000 | Total Remuneration - including Employers Pension Contribution £000 |
|---|---|---|---|---|---|---|
| ***2015/16*** | | | | | | |
| Chief Executive - John Sinnott | 187 | 0 | 4 | 191 | 40 | 231 |
| Director of Children & Family Services | 123 | 0 | 3 | 126 | 26 | 152 |
| Director of Environment & Transport | 119 | 0 | 0 | 119 | 25 | 144 |
| Director of Public Health | 123 | 0 | 0 | 123 | 18 | 141 |
| Director of Adults & Communities (N1) | 105 | 0 | 0 | 105 | 22 | 127 |
| Director of Finance - S151 Officer (N2) | 102 | 0 | 0 | 102 | 22 | 124 |
| Director of Corporate Resources | 86 | 0 | 3 | 89 | 18 | 107 |
| County Solicitor / Monitoring Officer to May 2015 (N3) | 28 | 0 | 0 | 28 | 5 | 33 |
| County Solicitor/Monitoring Officer June 2015 – March 2016 (N4) | 83 | 0 | 0 | 83 | 18 | 101 |
| **Total** | **956** | **0** | **10** | **966** | **194** | **1,160** |
| ***2014/15*** | | | | | | |
| Chief Executive - John Sinnott | 187 | 0 | 3 | 190 | 38 | 228 |
| Director of Adults & Communities (N5) | 128 | 0 | 0 | 128 | 26 | 154 |
| Director of Children & Family Services | 119 | 0 | 3 | 122 | 24 | 146 |
| County Solicitor / Monitoring Officer | 119 | 0 | 0 | 119 | 24 | 143 |
| Director of Environment & Transport | 116 | 0 | 0 | 116 | 24 | 140 |
| Director of Public Health | 119 | 0 | 0 | 119 | 17 | 136 |
| Assistant Director Strategic Finance & Property- S151 Officer (N2) | 98 | 0 | 0 | 98 | 20 | 118 |
| Director of Corporate Resources | 86 | 0 | 3 | 89 | 18 | 107 |
| **Total** | **972** | **0** | **9** | **981** | **191** | **1,172** |

There were no payments made for bonuses, expense allowances or other payments.

*N1* – The Director joined LCC in May 2015. The annualised salary for the post is £116k.
*N2* – The Assistant Director Strategic Finance & Property became Director of Finance in 2015/16.
*N3* – The County Solicitor / Monitoring Officer left LCC in May 2015. The annualised salary for this post is £128k.
*N4* – The County Solicitor / Monitoring Officer was appointed in June 2015 and left in March 2016. The annualised salary for the post is £100k. A new Director of Law and Governance has been appointed from April 2016, to replace the post of County Solicitor/ Monitoring Officer.
*N5* – The Director left LCC in March 2015.

**b)** The Authority’s other employees whose remuneration, taxable expenses and severance (if applicable), was £50,000 or more are detailed below. This information does not include employer’s pension contributions.

| 2014/15 | | | | | | | 2015/16 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Including Severance | | | Excluding Severance | | | | Including Severance | | | Excluding Severance | | |
| Schools | Non School | Number of Employees 2014/15 | Schools | Non School | Number of Employees 2014/15 | Remuneration Band | Schools | Non School | Number of Employees 2015/16 | Schools | Non School | Number of Employees 2015/16 |
| 61 | 59 | 120 | 58 | 53 | 111 | £50,000-£54,999 | 50 | 44 | 94 | 50 | 33 | 83 |
| 41 | 12 | 53 | 42 | 15 | 57 | £55,000-£59,999 | 47 | 40 | 87 | 47 | 37 | 84 |
| 25 | 16 | 41 | 24 | 16 | 40 | £60,000-£64,999 | 27 | 22 | 49 | 27 | 20 | 47 |
| 9 | 10 | 19 | 9 | 9 | 18 | £65,000-£69,999 | 11 | 7 | 18 | 11 | 7 | 18 |
| 5 | 4 | 9 | 5 | 3 | 8 | £70,000-£74,999 | 4 | 6 | 10 | 4 | 4 | 8 |
| 7 | 5 | 12 | 6 | 4 | 10 | £75,000-£79,999 | 3 | 5 | 8 | 3 | 4 | 7 |
| 3 | 4 | 7 | 4 | 4 | 8 | £80,000-£84,999 | 3 | 3 | 6 | 3 | 2 | 5 |
| 0 | 6 | 6 | 0 | 5 | 5 | £85,000-£89,999 | 0 | 2 | 2 | 0 | 2 | 2 |
| 0 | 1 | 1 | 0 | 1 | 1 | £90,000-£94,999 | 0 | 5 | 5 | 0 | 5 | 5 |
| 0 | 1 | 1 | 0 | 1 | 1 | £95,000-£99,999 | 0 | 1 | 1 | 0 | 0 | 0 |
| 1 | 1 | 2 | 1 | 1 | 2 | £100,000-£104,999 | 0 | 1 | 1 | 0 | 1 | 1 |
| 0 | 1 | 1 | 0 | 0 | 0 | £105,000-£109,999 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | £110,000-£114,999 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 1 | 1 | 0 | 0 | 0 | £115,000-£119,999 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | £120,000-£124,999 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | £125,000-£129,999 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 1 | 1 | 0 | 0 | 0 | £130,000-£134,999 | 0 | 1 | 1 | 0 | 0 | 0 |
| 0 | 1 | 1 | 0 | 0 | 0 | £135,000-£139,999 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | £140,000-£144,999 | 0 | 1 | 1 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | £145,000-£149,999 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1 | 0 | 1 | 0 | 0 | 0 | £150,000-£154,999 | 0 | 0 | 0 | 0 | 0 | 0 |
| **153** | **123** | **276** | **149** | **112** | **261** | **Total** | **145** | **138** | **283** | **145** | **115** | **260** |



Leicestershire County Council

**c)** The numbers of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below:

| Exit Package Cost Band | Number of Compulsory Redundancies | | Number of Other Departures Agreed | | Total Number of Exit Packages by Cost Band | | Total Cost of Exit Packages in each Cost Band* | |
|---|---|---|---|---|---|---|---|---|
| | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 £m | 2015/16 £m |
| £0 - £20,000 | 79 | 85 | 133 | 166 | 212 | 251 | 1.3 | 1.4 |
| £20,001 - £40,000 | 11 | 4 | 10 | 20 | 21 | 24 | 0.6 | 0.7 |
| £40,001 - £60,000 | 2 | 5 | 6 | 10 | 8 | 15 | 0.4 | 0.80.4 |
| £60,001 - £80,000 | 1 | 0 | 3 | 5 | 4 | 5 | 0.3 | 0.2 |
| £80,001 - £100,000 | 0 | 0 | 1 | 2 | 1 | 2 | 0.1 | 0.2 |
| £100,001 - £150,000 | 0 | 0 | 0 | 2 | 0 | 2 | 0.0 | 0.0 |
| £150,001 - £200,000 | 0 | 0 | 1 | 0 | 1 | 0 | 0.2 | |
| £200,001+ | 0 | 1 | 0 | 0 | 0 | 1 | 0.0 | 0.2 |
| **Total** | **93** | **95** | **154** | **205** | **247** | **300** | **2.9** | **3.9** |

*The above table includes accrued liabilities. See note 42 for further details
**Note the numbers shown are the actual number of officers, not full time equivalents.

## Note 35: External Audit Costs

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| | ***Fees payable to external auditor:*** | |
| 0.1 | ▪ annual audit | 0.1 |
| 0.0 | ▪ certification of grant claims * | 0.0 |
| **0.1** | **Total** | **0.1** |

* Grant claims continue to be accounted for on the basis of actual payments in year (£9,853 2014/15), rather than an estimation of costs relating to 2015/16 grant claims.

## Note 36: Dedicated Schools Grant

The Authority's expenditure on schools is funded by grant monies provided by the Education Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2014. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2015/16 are as follows:

| 2014/15 £m | £m | £m | Schools Budget Funded by DSG | 2015/16 £m | £m | £m |
|---|---|---|---|---|---|---|
| Central Exp | Individual Schools Budget | Total | | Central Exp | Individual Schools Budget | Total |
| | | (415.4) | Final DSG Before Academy Recoupment | | | (440.0) |
| | | 236.1 | Academy Figure Recouped | | | 263.5 |
| | | **(179.3)** | **Total DSG after Academy recoupment** | | | **(176.5)** |
| | | (9.6) | Brought Forward from Previous Year | | | (10.8) |
| | | 9.0 | Carry Forward Agreed in Advance | | | 0.0 |
| **(71.6)** | **(108.3)** | **(179.9)** | **Agreed Initial Budgeted Distribution** | **(83.5)** | **(103.8)** | **(187.3)** |
| (0.5) | 0.0 | (0.5) | In Year Adjustments | 0.3 | 0.0 | 0.3 |
| **(72.1)** | **(108.3)** | **(180.4)** | **Final Budgeted Distribution** | **(83.2)** | **(103.8)** | **(187.0)** |
| 70.3 | 0.0 | 70.3 | Actual Central Expenditure | 78.0 | 0.0 | 78.0 |
| 0.0 | 108.3 | 108.3 | Actual ISB Deployed to Schools | 0.0 | 103.7 | 103.7 |
| 0.0 | 0.0 | 0.0 | Local Authority Contribution | 0.0 | 0.0 | 0.0 |
| **(1.8)** | **0.0** | **(1.8)** | **Carry Forward** | **(5.2)** | **(0.1)** | **(5.3)** |

## Note 37: Grant Income

a) The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement:

(i) Credited to Taxation and Non Specific Grant Income.

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| | ***Revenue:*** | |
| 70.8 | Revenue Support Grant | 56.2 |
| 5.0 | Education Services Grant | 3.9 |
| 0.6 | Local Service Support Grant | 0.5 |
| 2.5 | Council Tax Freeze Grant | 0.0 |
| 2.6 | New Homes Bonus Scheme Grant | 3.4 |
| | ***Capital:*** | |
| | *Department for Education:* | |
| 0.8 | Devolved Formula Capital | 0.5 |
| 1.2 | School Meals Grant | 0.0 |
| 0.5 | Basic Need | 15.3 |
| 4.2 | Maintenance | 3.4 |
| | *Department for Transport:* | |
| 2.6 | Pothole Grant | 0.0 |
| 2.2 | Pinch Point Funding | 0.0 |
| 11.4 | Local Transport Plan - Maintenance | 14.2 |
| 4.9 | Local Transport Plan – Integrated Transport Schemes | 2.7 |
| 0.0 | LED – Street Lighting Project | 2.1 |
| 3.6 | Major Schemes Funding | 0.1 |
| | *Department of Communities and Local Government* | |
| 0.5 | European Regional Development Fund | 0.0 |
| 4.0 | Broadband UK | 1.7 |
| | *Department of Health* | |
| 1.3 | Community Capacity Grant | 1.3 |
| 0.4 | Transforming Care Grant | 0.0 |
| 0.0 | Disabled Facilities Grant | 1.7 |
| 0.0 | *Leicester and Leicestershire Enterprise Partnership* | 11.0 |
| 0.0 | *Section 106 Housing Developer Contributions* | 4.6 |
| 2.5 | *Other Capital Contributions* | 6.1 |
| **121.6** | **Total (Note 13 non ring-fenced government grants and capital grants and contributions)** | **128.7** |

(ii) Credited to Services.

| 2014/15 £m | | | 2015/16 £m | |
|---|---|---|---|---|
| | | *Public Health* | | 23.6 |
| | 21.9 | Public Health Grant | | |
| | | *Chief Executives* | | |
| 1.2 | | Local Welfare Provision | 0.0 | |
| 0.7 | | Youth Justice Board | 0.0 | |
| 0.8 | | Troubled Families Programme | 0.7 | |
| | 2.7 | | | 0.7 |
| | | *Corporate Resources* | | |
| | 1.3 | Centre of Excellence | | 0.9 |
| | | *Children and Family Services – Education:* | | |
| 179.9 | | Dedicated Schools Grant | 176.2 | |
| 0.8 | | Young Peoples Learning Agency | 0.9 | |
| 1.2 | | PE & Sports Grant | 1.2 | |
| 2.9 | | Universal Infant Free School Meals | 4.5 | |
| 1.2 | | SEN reform Grant | 0.0 | |
| 0.5 | | Music Grant | 1.4 | |
| 0.5 | | Adoption Improvement Grant | 0.0 | |
| 7.5 | | Pupil Premium Grant | 6.6 | |
| | 194.5 | | | 190.8 |
| | | *Adults and Communities – Dept of Health:* | | |
| 0.0 | | Care Act | 3.7 | |
| 0.0 | | Independent living Fund | 1.0 | |
| 4.5 | | Skills Funding Agency | 4.7 | |
| | 4.5 | | | 9.4 |
| | | *Environment and Transportation - Dept of Transport* | | |
| 0.5 | | Bus Services Operators Grant | 0.5 | |
| 1.1 | | Local Sustainable Transport Fund Grant | 0.9 | |
| | 1.6 | | | 1.4 |
| | 5.6 | Other | | 12.8 |
| | **232.1** | **Total** | | **239.6** |

b) The Authority has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver. The balances at the year end are as follows:

Short-Term Capital Grants Receipts in Advance:

| 31 March 2015 £m | | 31 March 2016 £m |
|---|---|---|
| | Dept for Education: | |
| 0.3 | School Meals Grant | 0.0 |
| | Dept of Health: | |
| 0.4 | Transforming Care Grant | 0.0 |
| 0.5 | Broadband Scheme – District/Boroughs | 0.0 |
| 0.4 | Section 106 Housing Developer Contributions | 1.0 |
| 0.0 | Other Grants and Contributions | 0.1 |
| **1.6** | **Total** | **1.1** |

Long-Term Capital Grants Receipts in Advance:

| 31 March 2015 £m | | 31 March 2016 £m |
|---|---|---|
| | East Midlands Development Agency: | |
| 0.4 | Land Reclamation Grant | 0.1 |
| 11.7 | Section 106 Housing Developer Contributions | 11.8 |
| **12.1** | **Total** | **11.9** |

## Note 38: Related Parties

Details of the total Government grants received are shown in Notes 13 and 37. The employers' contribution paid to the Pension Fund is shown in Note 14. Interests in consortia and other organisations are disclosed in Note 39. Details of the related party transactions with the Eastern Shires Purchasing Organisation (ESPO) are included within Note 39.

The Authority is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Authority, or be controlled or influenced by the Authority.

### *Central Government*

Central Government has significant influence over the general operations of Authority. It is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. Council Tax).

Grants received from government departments are set out in the analysis in Note 30 on reporting for resource allocation decisions. Grant receipts outstanding at 31 March are shown in Note 37.

### *Members*

Members of Leicestershire County Council have direct control over the council's financial and operating polices. The total of members' allowances paid in 2015/16 is shown in Note 33. During 2015/16, works and services to the value of £271,000 (2014/15 £252,000) were commissioned from a company, in which one member had an interest. Contracts were entered into in full compliance with the Authority's standing orders.

Currently, the Authority has contracts with voluntary and community sector organisations to the value of £0.3m (2014/15, £0.2m), in which 5 members (2014/15, 6 members) have an interest. In addition, payments totalling less than £0.1m have been made during 2015/16 (2014/15, less than £0.1m) to organisations, in which 4 members have a position on the governing body (2014/15, 4 members). No such payments have been made to organisations whose senior management includes members of the families of members. In all instances, the payments were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the payments. Details of all these transactions are recorded in the *Register of Members' Interest*, which is available for public inspection at www.leics.gov.uk

***Officers***

During 2015/16, works and services to the value of £202,000 were procured through the East Midlands Lawshare Framework, in which one senior officer's family member had an interest. Contracts were entered into in full compliance with the Authority's standing orders.

Additionally during 2015/16 works and services to the value of £170,000 were purchased from organisations in which two senior officers have declared an interest. Purchases were made in full compliance with the Authority's procurement guidelines.

***Other Public Bodies (Subject to Common Control by Central Government)***

The Authority has four pooled budget arrangements with local health authorities for the supply of aids for daily living, the Better Care Fund, drugs and alcohol support and the provision of services for adults with learning difficulties. Transactions and balances are detailed in Note 32.

***Entities Controlled or Significantly Influenced by Leicestershire County Council***

a) The Authority provides funding to Leicester Shire Promotions Limited (LPL) to provide tourism services in the County. A review of tourism started in 2011/12 concluded with the Authority deciding to carry out a competitive procurement process for the provision of tourism support services for three years from April 1st 2013, with provision included for a possible two year extension. That contract was won by Leicester Shire Promotions Limited. A review is underway to determine arrangements beyond March 2016; including whether to exercise the two-year extension option.

   The Authority made contributions of £0.2m to LPL during 2015/16 (2014/15 £0.2m). Income, debtor and creditor balances were all less than £0.1m during 2015/16 (2014/15 all less than £0.1m).

b) Leicester and Leicestershire Business Rates Pool

   The Local Government Finance Act 2012 introduced the business rates retention system from 1 April 2013. The arrangements enable local authorities to retain a proportion of the business rates generated in their area. Billing authorities collect rates on behalf of Central Government (50%), Major Preceptors – Leicestershire County Council (9%) and the Leicestershire Fire and Rescue Service (LFRS) (1%) – and themselves (40%).

   There are two "baselines" for each local authority - a funding baseline and a rates baseline. Where the funding baseline is higher than the rates baseline (as is the case for the Authority) the authority requires a "top-up" and is not subject to a levy on any business rates growth. Where an authority's rates baseline is higher than its funding baseline, the authority is in a "tariff" position and will contribute to a central fund which is redistributed to "top-up" authorities.

   "Tariff" authorities are subject to a levy on any real terms growth in business rates at a maximum rate of 50%. In non-Pooled areas the tariff is payable to the Government and will be used to fund "safety net" payments to authorities which have seen significant reductions in business rates income. The safety net is currently activated if retained rates fall below 92.5% of the funding baseline for the authority.

Authorities are invited to form Pools. For tariff and top-up purposes and also regarding levy and safety net calculations, the Government treats a Pool as if it were a single entity.

The Authority along with Leicester City Council, the Leicester, Leicestershire and Rutland Combined Fire Authority and all Leicestershire District Councils agreed to operate a pooling agreement for business rates levies and safety net payments for 2013/14, the Leicester and Leicestershire Pool (LLP). Due to uncertainties over Government policy changes and the potential appeal losses, the LLP partners decided not to continue with the Pool in 2014/2015. However following a review in January 2015 the LLP partners agreed to reconstitute the Pool for 2015/16 and in January 2016 agreed to continue with the Pool in 2016/17.

The County Council is the lead authority for the LLP.

A summary of the position for 2015/16 is shown below which shows an overall surplus on the Pool of £2.7m.

| 2015/16 | Funding Baseline £m | Rates Baseline £m | Retained Rates £m | Levy £m | Safety Net £m |
|---|---|---|---|---|---|
| Blaby | 2.0 | 15.8 | 17.4 | 0.8 | 0.0 |
| Charnwood | 3.9 | 17.9 | 16.9 | 0.0 | 0.7 |
| Harborough | 1.6 | 13.5 | 15.1 | 0.8 | 0.0 |
| Hinckley & Bosworth | 2.4 | 11.3 | 12.5 | 0.6 | 0.0 |
| Melton | 1.2 | 5.2 | 5.6 | 0.2 | 0.0 |
| NW Leicestershire | 2.2 | 19.0 | 21.0 | 1.0 | 0.0 |
| Oadby & Wigston | 1.4 | 4.9 | 5.0 | 0.0 | 0.0 |
| **Total** | **14.7** | **87.6** | **93.5** | **3.4** | **0.7** |
| **Net Gain** | | | | | **2.7** |
| | | | | | |
| **Contingency b/f from 2013/14 Pool** | | | | | **0.7** |
| **Total 31 March 2016** | | | | | **3.4** |

The LLP partners agreed that £2m of the balance held will be paid to the Leicester and Leicestershire Economic partnership (LLEP) for investment in the Leicestershire area, with the balance of £1.4m retained by the County Council as a contingency towards the 2016/17 Pool and is shown as a creditor in the Authority's accounts. The contingency is shown in the Authority's accounts as a receipt in advance; £1.0m held on behalf of the Pool members and the balance of £0.4m, the Authority's share, is held as part of the Business Rates Retention Reserve.

***Concessionary Travel Fares Scheme***

The Authority administers the Concessionary Travel Fares Scheme for areas covered by Leicester City Council and the District Councils in Leicestershire, for which income and expenditure is shown below:

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| (9.1) | Income | (8.7) |
| 14.8 | Expenditure | 13.9 |
| **5.7** | **Net Cost** | **5.2** |

# Note 39: Interests in Other Consortia

### a) Eastern Shires Purchasing Organisation (ESPO)

The Authority is a member of the Eastern Shires Purchasing Organisation involved in the negotiation of contracts for supplies to its members and the provision of a central warehouse for the supply of items in common use. During 2015/16 a net surplus of £1.7m (2014/15 £1.9m surplus) was reported on net service income of £20.4m (2014/15 £20.1m). Turnover between ESPO and the Authority totalled £6.0m (2014/15 £6.5m) in respect of total sales. The Authority had an outstanding creditor balance of £0.4m (2014/15 £0.4m) and an outstanding debtor balance of £0.2m as at 31 March 2016 (2014/15 £0.4m).

In 2005, the Authority entered into a 25 year borrowing arrangement of £12.5m on behalf of the constituent members of the consortium to finance the provision of a new warehouse and integrated offices. The loan outstanding as at 31 March 2016 is £7.3m (2014/15 £7.8m).

The Authority in effect owns approximately one sixth of ESPO assets and liabilities net £2.4m (2014/15 £2.1m). These are not included on the Authority's Balance Sheet. A copy of ESPO's statement of accounts is available from ESPO, Barnsdale Way, Grove Park, Enderby, Leicester. LE19 1ES.

### b) Leicester, Leicestershire and Rutland Combined Fire Authority

The Authority is a constituent member of Leicester, Leicestershire and Rutland Combined Fire Authority. During 2015/16 the estimated turnover is £37.0m (2014/15 actual turnover £38.3m). The Authority received £0.5m of income during 2015/16 from Leicester, Leicestershire and Rutland Combined Fire Authority (2014/15 £0.4m). The Authority had an outstanding debtor balance of £0.1m as at 31 March 2016 (2014/15 £0.2m).

A copy of the Fire Authority statement of accounts is available from: Leicester, Leicestershire and Rutland Combined Fire Authority at 12 Geoff Monk Way, Birstall, Leicester, LE4 3HR

### c) East Midlands Shared Services

The Authority runs a joint operation with Nottingham City Council (NCC) to provide shared transactional finance, human resources and payroll services to both authorities under the name of East Midlands Shared Services (EMSS). EMSS operates under a Joint Committee established under section 102 of the Local Government Act 1972. The Joint Committee does not have a separate legal personality and is therefore not a separate entity.

Operations relating to EMSS are carried out at both LCC and NCC premises with LCC being the employing authority and NCC the host authority. In line with the partnership agreement the net expenditure is shared between the two authorities by allocating an equal share of the financial benefits (savings) accruing from the operation of EMSS. This has resulted in a share of costs for the Authority of 43.4%. EMSS does not separately own any assets or liabilities.

A summary of the income and expenditure of EMSS and the associated amounts included in Authority's accounts are shown below.

| Total EMSS 2014/15 £m | Amounts Included in LCC CIES 2014/15 £m | | Total EMSS 2015/16 £m | Amounts Included in LCC CIES 2015/16 £m |
|---|---|---|---|---|
| | | **Income:** | | |
| (1.4) | (1.4) | Direct external income - LCC | (1.6) | (1.6) |
| (0.5) | 0.0 | Direct external income - NCC | (0.6) | 0.0 |
| 0.0 | (3.0) | NCC share of net LCC direct costs | 0.0 | (2.8) |
| (1.9) | (4.4) | **Total Income** | (2.2) | (4.4) |
| | | **Expenditure:** | | |
| 6.5 | 6.5 | Direct costs incurred by LCC | 6.3 | 6.2 |
| 0.2 | 0.0 | Direct costs incurred by NCC | 0.1 | 0.0 |
| 6.7 | 6.5 | **Total Expenditure** | 6.4 | 6.2 |
| **4.8** | **2.1** | **Net Expenditure** | **4.2** | **1.8** |

### c) Centre of Excellence for Information Sharing

The Centre of Excellence for Information Sharing is a local-national collaboration, funded by multiple government departments. It is hosted by Leicestershire County Council, and has a team of people from across national and local organisations. The organisation's vision is for users of public services to achieve better outcomes as a direct result of improved information sharing between agencies and local places.

The organisation's main goals are:

- To achieve joined up approaches to public service transformation locally and nationally through better information sharing
- To achieve recognition and understanding that cultural and organisational factors are key influences on effective information sharing
- To increase local capacity and capability to share information
- To use evidence on information sharing to drive change, locally and nationally

The accounts for the Centre are included within the CIES under the heading of Planning Services.

***Income and Expenditure***

| 2014/15 (From October 2014) £m | | 2015/16 £m |
|---|---|---|
| (1.3) | Income | (1.4) |
| 0.5 | Transfer (from) / to Reserve | 0.4 |
| 0.8 | Expenditure | 1.0 |
| **0.0** | **(Surplus)/Deficit** | **0.0** |

## Note 40: Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to fund it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| **317.6** | Opening Capital Financing Requirement | **298.5** |
| | ***Capital Investment:*** | |
| 41.4 | Property, Plant and Equipment | 68.7 |
| 1.1 | Intangible Assets | 0.4 |
| 9.8 | Revenue Expenditure funded from Capital under Statute | 17.9 |
| 0.0 | Long Term Inventory – Available for Sale (N1) | 15.0 |
| | ***Sources of Finance:*** | |
| (2.1) | Capital Receipts | (6.2) |
| (41.8) | Government grants and other contributions | (74.7) |
| (8.4) | Direct revenue contributions | (21.1) |
| (12.7) | Statutory Minimum Revenue Provision (N2) | (12.0) |
| (6.4) | Additional (Voluntary) Minimum Revenue Provision (N3) | (2.9) |
| **298.5** | **Closing Capital Financing Requirement** | **283.6** |
| | **Explanation of Movements in Year** | |
| | Increase in underlying need to borrow: | |
| 0.0 | Supported by government financial assistance | 0.0 |
| 0.0 | Unsupported by government financial assistance | 0.0 |

(N1) During 2015/16 the County Council purchased £15m of Pooled Property Investments to generate ongoing revenue savings.

(N2) The Statutory Minimum Revenue Provision (MRP) is a prudent amount that the Authority is obligated under statutory provisions to set aside to finance the costs incurred to fund capital expenditure projects. The Authority's approach for government supported borrowing is for repayment of 4% per annum of the outstanding debt and for unsupported borrowing to make repayment by equal annual instalments over twenty five years.

(N3) During 2015/16 the County Council made an additional MRP contribution of £2.9m, funded from revenue and reserve balances, to reduce the capital financing requirement. This reduces the need to borrow, saving future capital financing costs.

## Note 41: Leases

### *a) Amounts Paid to Lessors*

Finance lease rentals paid to lessors in the year totalled £0.3m (2014/15 £0.3m). Lease rentals paid to lessors during the year in respect of operating leases for vehicles and equipment totalled £0.7m (2014/15 £0.8m).

### *b) Amounts Received from Lessees*

Lease rentals on Authority owned buildings received from lessees during the year in respect of operating leases totalled £1.5m (2014/15 £1.5m). Lease rentals contractually agreed to be received in 2016/17 is £0.5m. During 2015/16 five schools transferred to Academy Status resulting in the net book value of the schools, £13.4m being written out of the Authority's Balance Sheet as these have been transferred on 125 year finance lease terms (2014/15 twenty one schools, £59.8m). No consideration was or will be received by the Authority for these finance leases.

### *c) Leased Assets*

The Authority has a liability to make payments for the following leases during 2016/17 and beyond. The comparators in 2014/15 for 2015/16 and beyond are as follows:

| 2014/15 | | | | | 2015/16 | | | |
|---|---|---|---|---|---|---|---|---|
| Finance Lease Principal (NPV) | Finance Cost | Finance Leases Total | Operating Leases | | Finance Lease Principal (NPV) | Finance Cost | Finance Leases Total | Operating Leases |
| £m | £m | £m | £m | | £m | £m | £m | £m |
| | | | | ***Lease Payments due:*** | | | | |
| 0.1 | 0.2 | 0.3 | 0.1 | Within 1 year | 0.1 | 0.2 | 0.3 | 0.1 |
| 0.3 | 0.8 | 1.1 | 0.8 | 2 to 5 years | 0.3 | 0.9 | 1.2 | 0.3 |
| 1.2 | 4.0 | 5.2 | 0.0 | Over 5 years | 1.1 | 3.8 | 4.9 | 0.0 |
| **1.6** | **5.0** | **6.6** | **0.9** | **Total** | **1.5** | **4.9** | **6.4** | **0.4** |

Finance Leased Assets have a carrying value within Land and Buildings within Property, Plant and Equipment of £1.0m as at 31 March 2016 (31 March 2015 £1.0m).

## Note 42: Impairment Losses

During 2015/16, the Authority has not recognised any impairment losses (2014/15 nil). However, revaluations downwards of £13.8m have been recognised in the Revaluation Reserve and revaluations downwards of £11.0m have been recognised in the Comprehensive Income and Expenditure Statement as shown in Note 7 and 8.

## Note 43: Termination Benefits

Termination benefits arise when employment is terminated by the Authority before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Authority recognises termination benefits as a liability and an expense if the Authority is demonstrably committed to a detailed formal plan without realistic possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, termination benefits are measured based on the number of employees expected to accept the offer. The total termination benefits for 2015/16 are £3.9m (2014/15 £2.9m).

Details of actual and accrued benefits are shown below:

- **Actual Benefits**

| 2014/15 Number of Officers Schools | 2014/15 Number of Officers Non-Schools | 2014/15 Amount (£m) | | 2015/16 Number of Officers Schools | 2015/16 Number of Officers Non-Schools | 2015/16 Amount (£m) |
|---|---|---|---|---|---|---|
| | | | ***Department:*** | | | |
| 93 | 36 | 1.0 | Children & Family Services | 11 | 23 | 0.2 |
| 0 | 1 | 0.0 | Environment & Transport | 0 | 15 | 0.6 |
| 0 | 43 | 0.5 | Adults & Communities | 0 | 51 | 0.3 |
| 0 | 19 | 0.4 | Corporate Resources | 0 | 11 | 0.4 |
| 0 | 7 | 0.1 | Chief Executive's | 0 | 9 | 0.3 |
| 0 | 0 | 0.0 | Public Health | 0 | 2 | 0.0 |
| **93** | **106** | **2.0** | **Total** | **11** | **111** | **1.8** |

- **Accrued Benefits**

| 2014/15 Number of Officers Schools | 2014/15 Number of Officers Non-Schools | 2014/15 Amount (£m) | | 2015/16 Number of Officers Schools | 2015/16 Number of Officers Non-Schools | 2015/16 Amount (£m) |
|---|---|---|---|---|---|---|
| | | | ***Department:*** | | | |
| 7 | 12 | 0.2 | Children & Family Services | 8 | 68 | 0.6 |
| 0 | 6 | 0.3 | Environment & Transport | 0 | 70 | 1.4 |
| 0 | 6 | 0.1 | Adults & Communities | 0 | 30 | 0.1 |
| 0 | 17 | 0.3 | Corporate Resources | 0 | 2 | 0.0 |
| 0 | 0 | 0.0 | Chief Executive's | 0 | 0 | 0.0 |
| 0 | 0 | 0.0 | Public Health | 0 | 0 | 0.0 |
| **7** | **41** | **0.9** | **Total** | **8** | **170** | **2.1** |

## Note 44: Contingent Liabilities

a) Municipal Mutual Insurance Limited (MMI), the Authority's former insurer between November 1969 and October 1991, ceased writing insurance business owing to financial difficulties in September 1992. MMI made a scheme of arrangement with its creditors in the event of the company becoming insolvent.

The latest financial information for MMI, as disclosed in their management accounts for the half year to 31 December 2015 shows estimated net liabilities of £112m. As a result the scheme administrators increased the levy on scheme members in March 2016 to 25% (from 15% imposed in April 2014), at a cost to the County Council of £1.5m.

However it should be noted that there is a contingent liability for any additional deficit due to the uncertainty of the value of incurred but not reported (IBNR) claims. A reserve has been established to reduce the risk to the Authority of any further liabilities under the MMI scheme of arrangement and in respect of other failed insurers such as The Independent Insurance Company Limited and any uninsured losses.

b) Independent Insurance Company Limited, the Authority's liability insurers for the period 1 November 1993 to 31 October 1998, went into provisional liquidation in June 2001. Claims to date for this period have been financed from the Authority's insurance reserve; however, further claims may arise in the future. The provisional liquidators for this company are proposing a scheme of arrangement to bring the affairs of the company to a close. It is likely that there will be a limited pay out in respect of claims already submitted and an estimate of those incurred but not reported (IBNR).

c) Projects that have been awarded lottery funds; if the assets provided are withdrawn from public use before the end of the agreed term, repayment of grant may be necessary.

## Note 45: Nature and Extent of Risks Arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks:

(i) Credit risk – the possibility that other parties might fail to pay amounts due to the Authority
(ii) Liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
(iii) Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Corporate Resources Department, under polices approved by the Authority in the Annual Treasury Management Strategy. The Authority provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

### (i) Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

This risk is minimised through the Annual Investment Strategy. This requires that deposits are not made with financial institutions unless they meet certain identified minimum credit criteria as laid down by Capita Asset Services, who act as treasury management advisors to the Authority. These minimum criteria include a number of factors including credit ratings assigned by Fitch and Moody's Ratings Services, the rating of the counterparty's sovereign government and the cost of Credit Default Swaps (in effect, the cost of insuring against the risk of default by a counterparty).

Maximum limits for funds on loan and maturity dates exist for each acceptable counterparty and vary according to Capita's assessment of their overall financial strength. The Authority will only lend for a maximum of one year (Capita have a two year period for a small number of counterparties) and will not lend to any counterparty that has a maximum period of less than six months within Capita's matrix.

Customers are not assessed for credit risk other than for tenancy agreements and major contracts.

The matrix in respect of money market loans made by the Authority are detailed below:

### *Matrix for UK Banks and Building Societies*

| | | | |
|---|---|---|---|
| Maximum Sum Outstanding | £50m | £30m | £20m |
| Maximum Loan Period | 1 year | 1 year | 6 months |
| General Description | 'Special Instructions' (i.e. significant element of UK-Government ownership) and included in Capita list for period of 1 year or more | Not 'special instructions' and included in Capital list for period of 1 year or more | Included in Capita list for period of 6 months |

### *Matrix for Overseas Banks*

| | | |
|---|---|---|
| Maximum Sum Outstanding | £15m | £10m |
| Maximum Loan Period | 1 year | 6 months |
| Minimum Fitch Ratings | Included in Capital list for period of 1 year or more | Included in Capita list for period of 6 months |

A maximum of £30m can be invested with all banks domiciled within a single country (note: there is no limit for total lending to UK financial institutions)

### *Money Market Funds*
AAA-rated only
Maximum amount in any single fund = £25m
Maximum amount in all Money Market Funds = £125m

### *Debt Management Office (DMO) (Executive Agency of HM Treasury)*
No restriction on loan amounts or periods. In the event that the maximum loan length is extended beyond the current 6 month period, no loan will have a maturity above 12 months.

### *Exposure to Credit Risk*
The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies is 100% of its investments, but this cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at 31 March 2016 that this was likely to crystallise.

The following analysis summarises the Authority's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

| | Amount at 31st March 2015 £m | Historical experience of default % | Historical experience adjusted for market conditions at 31 March 16 % | Estimated maximum exposure to default and uncollecta-bility £m | Amount at 31st March 2016 £m |
|---|---|---|---|---|---|
| Deposits with banks and financial institutions | 165.3 | 0.0 | 0.0 | 0.0 | 177.0 |
| Sales ledger | 20.9 | 0.2 | 0.0 | 0.0 | 20.1 |
| **Total** | **186.2** | | | | **197.1** |

No credit limits were exceeded during the reporting period and the Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Authority does not generally allow credit for customers. The past due but not impaired Sales ledger debt can be analysed by age as follows:

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 15.7 | Less than three months | 14.9 |
| 1.3 | Three to six months | 1.5 |
| 1.2 | Six months to one year | 1.3 |
| 2.7 | More than one year | 2.4 |
| **20.9** | **Total** | **20.1** |

In respect of the above sales ledger debt, the Authority has made a provision of £2.4m for potential doubtful debts.

### (ii) Liquidity risk

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Authority sets limits on the proportion of its fixed rate borrowing during specific periods. The strategy is to ensure that not more than 50% of loans are due to mature within any rolling five-year period through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of financial liabilities is as follows:

| 31 March 2015 £m *Restated* Principal Outstanding | | 31 March 2016 £m Principal Outstanding |
|---|---|---|
| | **Lender:** | |
| 180.1 | Public Works Loan Boards | 169.6 |
| 105.5 | Banks and Building Societies | 105.5 |
| 1.1 | Leicestershire Local Economic Partnership | 0.0 |
| 286.7 | **Total by Lender** | 275.1 |
| | **Analysis of Loan Maturity Profile:** | |
| 11.6 | Less than 1 year | 0.5 |
| 11.6 | **Total Short Term Loans by Maturity** | 0.5 |
| 0.5 | Between 1 and 2 years | 0.5 |
| 10.0 | Between 2 and 5 years | 10.0 |
| 0.5 | Between 5 and 10 years | 5.3 |
| 5.3 | Between 10 and 15 years | 0.5 |
| 5.3 | Between 15 and 20 years | 4.8 |
| 0.0 | Between 20 and 25 years | 0.0 |
| 12.6 | Between 25 and 30 years | 12.6 |
| 42.7 | Between 30 and 35 years | 47.6 |
| 75.7 | Between 35 and 40 years | 100.5 |
| 69.0 | Between 40 and 45 years | 39.3 |
| 53.5 | Greater than 45 years | 53.5 |
| 275.1 | **Total Long Term Loans by Maturity** | 274.6 |
| 286.7 | **Total Loans by Maturity** | 275.1 |

| | | |
|---|---|---|
| 11.6 | Total Short Term Loan Principal Outstanding | 0.5 |
| 3.5 | Short Term Accrued Interest Due on Loans | 3.4 |
| **15.1** | **Total Short Term Borrowing** | **3.9** |

| | | |
|---|---|---|
| 275.1 | Total Long Term Loan Principal Outstanding | 274.6 |
| 3.0 | Total Long Term LOBO Principal Outstanding | 2.9 |
| **278.1** | **Total Long Term Borrowing** | **277.5** |

All trade and other payables are due to be paid in less than one year.

### (iii) Market risk

***Interest rate risk***

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of services will rise
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of services will rise
- Investments at fixed rates – the fair value of the assets will fall

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

The Authority has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of 50% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse charges to be accommodated. The analysis will also advise whether new borrowing is taken out as fixed or variable.

According to this assessment strategy, at 31 March 2016, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

| | **£m** |
|---|---|
| Increase in interest payable on variable rate borrowings | N/A |
| Increase in interest receivable on variable rate investments | 1.6 |
| Increase in government grant receivable for financing costs | 0.0 |
| **Impact on Surplus or Deficit on the Provision of Services** | **1.6** |
| | |
| Decrease in fair value of fixed rate investment assets | (4.5) |
| **Impact on Other Comprehensive Income and Expenditure** | **(4.5)** |
| Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the provision of Services or Other Comprehensive Income and Expenditure) | (71.9) |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

***Price risk***

The Authority does not hold any equity shares, thus there is no price risk to the Authority.

***Foreign exchange risk***

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

## Note 46: Self-Insurance

Provisions and reserves are operated to meet the self-insured deductibles for the following policies, however, stop loss insurance applies to fire and public/employers' liability policies.

| | Deductible per Claim |
|---|---|
| | £ |
| Fire | 500,000 |
| Public/Employers' liability | 250,000 |
| Fidelity guarantee | 100,000 |
| Motor | 500 |

Apart from Museums, the Authority has no general insurance cover for accidental damage to or the theft of contents from buildings. Similarly the Authority does not purchase money insurance. Schools, however, have the option to join a group self insurance scheme to cover the above risks.

## Note 47: Heritage Assets: Collections

***The Art Collection***
The collection consists of numerous paintings which were mostly purchased between the 1930's and 1980's. The majority of the paintings are loaned to schools, community centres, day centres and other public buildings within Leicestershire. Some of the notable paintings of most value are works of the nineteenth century local artist John Ferneley and other artists including Christopher Wood, Robert Colquhoun and William Scott.

***The Archaeological Collection***
This collection consists of the Hallaton treasure, the largest hoard of British Iron Age coins, which was initially discovered near Hallaton in 2000. The hoard includes over 5,000 silver and gold coins, a silver-gilt Roman parade helmet, jewellery, and other objects. Most of the items date to around the time of the Roman Conquest of Britain in the 1st century AD. It was purchased in 2007 for £0.3m and restored in 2011 and revalued to £0.4m.

***The Working Life Collection***
The collection consists mainly of donated steam locomotives which were operational during the mid 1950's. It also consists of the Whitwick hearse, the Marshall Steam Traction Engine, an ice cream van and the Blue Box Century Theatre. The Century Theatre is thought to be the only solid structure, fully equipped, mobile theatre in the world. The dream of John Ridley, an engineer, was turned into reality in a Hinckley yard between 1948 and 1952. Converted from wartime military trailers and tractors, the theatre travelled in convoy of 32 vehicles to provide quality theatre around the country for 23 years. Many famous names are associated with the theatre including Laurence Olivier, Agatha Christie, Enid Blyton, Judi Dench, Helen Mirren, Tom Courtney, Derek Fowlds and Eileen Derbyshire. It is now permanently based at Snibston, primarily as an historical artefact, but it continues to provide quality touring theatre, music, comedy and educational activities for the community.

***The Fashion Collection***
This collection is solely made up of the Symington collection which was created by the Market Harborough Company R. & W. H. Symington, which began to make corsets for fashionable Victorian ladies in the 1850s. The company eventually grew into an international concern and one of its most famous products, the Liberty Bodice, was produced for almost seventy years.

This unique collection was donated to the Authority's Museums Service in 1980. Although it includes some pieces made by their competitors, the collection essentially tells the story of the Symington Company over a period of one hundred and thirty years. It includes garments and supporting advertising material, which provide an insight into the development of corsetry, foundation garments and swimwear from the late 19th century through to the beginning of the 1990s.

***The Civic Collection***
This collection comprises of the Melton Mowbray Horse Fair painting by John Ferneley and Silver and Insignia held by the Authority.

## Note 48: Trust Funds (Excluded from the Balance Sheet)

The Authority acts as trustee and/or administrator for approximately 20 prize funds, endowments, scholarships and bequests. The original bequests are invested in either the Authority's trust fund pooling scheme or in a range of other direct external investments.

Trustees are nominated by Leicestershire County Council, Leicester City Council and the National Trust to the Bradgate Park and Swithland Wood charity.  This is the largest Trust the Authority is involved with, and due to the timing of the production of the Authority's Statement of Accounts, the figures shown below are compiled on an estimated basis.

To the extent that income from these investments has not been utilised for prizes etc., the surplus funds are invested in short term deposits with various financial institutions. Under regulations issued through the Charities Act 2011, trust fund accounts where annual income exceeds £10,000, require an independent examination. The main trust funds are as follows:

| | Restated Balance at 31 March 2015 £m | Income £m | Expenditure £m | Balance at 31 March 2016 £m |
|---|---|---|---|---|
| ***Trust Funds:*** | | | | |
| Kibworth High School Endowment | 0.2 | 0.1 | (0.0) | 0.3 |
| Bradgate Park & Swithland Wood Charity * | 1.3 | 1.5 | (1.7) | 1.1 |
| Others | 0.2 | 0.1 | (0.0) | 0.3 |
| **Total Trust Funds** | **1.7** | **1.7** | **(1.7)** | **1.7** |

* Not sole trustee.  The Authority administers the funds and is represented on the board of trustees.

## Note 49: Accounting Policies

### 1. *General Principles*

The Statement of Accounts summarises the Authority's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting (COPLAA) in the UK 2015/16 and the Service Reporting Code of Practice (SeRCOP) 2015/16, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 act.

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

### 2. *Provisions*

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

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

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

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

### 3. *Reserves*

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. These are created by appropriating amounts out of the General Fund in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the provision of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority.

The reserves operated by the Authority are explained further:

#### a) *Revenue*

The General County Fund Balance represents a working balance derived from past savings disclosed in the income and expenditure account or budgeted contributions. This balance incorporates both school balances, which as a result of legislation are retained by each individual school, and underspends on services that have been approved for carry forward to the following year.

In addition a number of earmarked revenue reserves are maintained for future expenditure which falls outside the definition of a provision.

#### b) *Capital*

In accordance with standard accounting practice for local authorities, three non-cash backed capital reserves exist as part of the system of capital accounting. These are:

##### *Revaluation Reserve*

The Revaluation Reserve represents the gains in asset values arising from the revaluation of fixed assets since 1 April 2007. Gains arising before this date have been consolidated into the Capital Adjustment Account. The balance thus represents unrealised gains since that date.

### *Capital Adjustment Account*

A store of capital resources set aside from revenue, capital receipts and the provision for repayment of debt (MRP) set aside to finance past capital expenditure.

### *Deferred Capital Receipts Reserve*

There is an additional Unusable Capital Reserve for deferred capital receipts as these are not recognised as Usable Capital receipts until they are backed by cash receipts, at which point they will be transferred to the Usable Capital Receipts Reserve.

### *Capital Receipts Reserve and Capital Grants Unapplied*

There are also two Usable Capital Reserves. For further details of the Capital Receipts Reserve and Capital Grants Unapplied see accounting policies 11 and 13 respectively.

## *c) Other*

There are also three other non-cash backed reserves that are held for statutory accounting purposes. These are:

### *Financial Instruments Adjustment Account*

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

### *Pensions Reserve*

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

### *Short-Term Accumulating Compensated Absences Adjustment Account*

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

## *4. Cash and Cash Equivalents*

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

### *5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors*

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

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

### *6. Non- Current Assets*

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

Recognition:
Expenditure on the acquisition, creation or enhancement of an asset is capitalised on accruals basis, provided that it is probable that future economic benefits will flow to the Authority and the cost can be measured reliably. The Authority operates a de-minimis limit of £10,000 for individual items; relatively minor items may be financed from revenue. The purchase of single items below £10,000 may be capitalised in certain circumstances, for example, the need to comply with grant conditions. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs or maintenance) is charged as an expense when it is occurred.

- Measurement of assets are initially at cost, comprising:
  - the purchase price
  - any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

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

Some categories of Non-Current Assets are revalued on the basis recommended by the COPLAA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS).

The basis of valuation of the various categories of assets is as follows:

- ***Intangible Assets***

  Expenditure on non-monetary assets which do not have a physical substance (i.e. software licences) but are controlled by the Authority as a result of a past event is capitalised when it is expected that future economic benefits or service potential will flow to the Authority. The valuation is based on amortised historical cost for all assets with an original cost in excess of £20,000.

- ***Property, Plant and Equipment- divided into the following sub-categories;***

- ***Land and Buildings*** are included in the Balance Sheet at current value for existing use or, where because of the specialised nature this could not be assessed (there being no market for such an asset), at depreciated replacement cost.

Valuation is carried out on a selective on-going basis such that all assets are revalued at least once every five years, and on completion of a capital scheme above £100,000. In addition the top twenty valued assets are valued each year. The valuation is carried out by qualified Chartered Surveyors, who are also Registered Valuers, from the Commissioning Estates service within the Corporate Resources Department. Asset lives have been reviewed and standardised over the last two years and have been updated within the Asset Register. Assets Held For Sale are revalued within the year to ensure the open market value is accurate.

The current asset values used in the accounts are based on a certificate issued by the Authority's Strategic Property Manager as at 1 April 2014. Additions since that date are included in the accounts at their cost of acquisition. The addition is then reviewed, and if the actual capital expenditure does not increase the asset valuation or if the expenditure is less than the Authority's £100,000 capital de-minimus level then this value will be recognised in the Comprehensive Income and Expenditure Statement as capital expenditure not increasing value.

- ***Vehicles, Plant, Furniture and Equipment;*** valuation is based on depreciated historical cost for all assets with an original cost in excess of £20,000, with the exception of Leicestershire Highways who occasionally capitalise assets under £20,000. Additions below these de-minimus levels are recognised in the Comprehensive Income and Expenditure Statement as capital expenditure not increasing in value.

- ***Infrastructure Assets*** are valued on the basis of depreciated historical cost.

- ***Community Assets*** are assets that the Authority is likely to keep in perpetuity for the benefit of local people, e.g. country parks and reclaimed land. Such assets are valued at nominal values for assets acquired prior to 1994 and historical cost thereafter.

- ***Assets Under Construction*** are based on actual payments made to date.

- ***School Buildings*** are held at current value but because of their specialist nature are measured at depreciated replacement cost.

- ***Surplus Assets*** are surplus to service requirements and are valued current value. The current value measurement base is fair value, estimated at highest and best use from the market participant's perspective.

- ***Assets Held For Sale*** are assets that are actively being marketed for sale, the asset sale is highly probable and the sale is expected within 12 months. An asset is classed as held for sale when the carrying value will be principally recovered through a sale transaction rather than through its continuing use. The asset is revalued immediately on an open market basis and any loss is posted to the other operating expenditure line in the Comprehensive Income and Expenditure Statement.

***Componentisation***

IAS 16 requires significant components of assets to be recorded separately where they have substantially different useful lives to enable depreciation to be calculated separately.
The Authority componentises assets into blocks that have a significant value against the total value of the asset or are naturally identifiable i.e. swimming pool or external building. The Authority also recognises a significant component within a block to be any component over £100,000 that individually exceeds 25% of the total value of the block and has a substantially different life to the overall structure.

As of the 1st April 2014 all school assets have been componentised in line with the methodology for Modern Equivalent Asset (MEA) on a Depreciated Replacement Cost basis.

***Revaluation of Assets***

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains are credited to the Comprehensive Income and

Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Revaluation losses due to a general fall in market price are first offset against any balance that is on the Revaluation Reserve and are only charged to the Comprehensive Income and Expenditure Statement when the Revaluation Reserve has been cleared to nil.

Upon disposal of a non-current asset any revaluation gains for that asset are transferred from the Revaluation Reserve to the Capital Adjustment Account. Revaluation gains are also subject to depreciation, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

***Impairment of Assets***

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Impairment of non-current assets arises from the clear consumption of economic benefit e.g. physical damage such as a major fire. Where indications exist and possible differences are estimated to be material an impairment loss is identified.

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance.

- Where there is no balance on the Revaluation Reserve or an insufficient balance, the carrying amount of the asset I written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

All impairment charges to the Comprehensive Income and Expenditure Statement are reversed out via the Movement in Reserves Statement.

An impairment loss is only permitted to be reversed where there has been a change in the estimates used to value the asset's recoverable amount since the impairment loss was recognised. Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised. The reversal of impairment losses is assessed at the end of each financial year.

***7. Heritage Assets***

The Authority's Heritage Assets are held in the Authority's museums and other cultural sites. Heritage Assets are categorised into 5 collections, which are held primarily to increase the knowledge, understanding and appreciation of the Authority's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets as detailed below. The Authority's collections of Heritage Assets are as follows;

- ***The Art Collection***
- ***The Archaeological Collection***
- ***The Working Life Collection***
- ***The Fashion Collection***
- ***The Civic Collection***

### *Heritage Assets – General*

The carrying amounts of Heritage Assets are reviewed where there is evidence of impairment to Heritage Assets, e.g. where an item has suffered a physical deterioration or where there is a doubt to the authenticity of a piece of art. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment (accounting policy 6 above). Proceeds from the sale of Heritage Assets are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital receipts (accounting policy 11 below). Assets are initially recognised at cost and will then be revalued for insurance purposes.

## *8. Leases*

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

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

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

### Authority as a Lessee:

#### Finance Leases:

When assessing whether the lease is a finance lease the following criteria have been considered:

- Lease transfers ownership at the end of the term.
- Lessee has option to purchase asset at price lower than fair value.
- Lease term is major part of economic life of the asset.
- Present value of minimum lease payments is substantially all of the fair value of the asset.
- Leased assets are so specialised in nature that only the lessee can use them without major modifications.

The Authority recognises both a major part of an asset's economic life and substantially all of the fair value of an asset to be 75% and over.

Property, plant and equipment held under finance leases are reflected in the appropriate category of non-current asset on the Balance Sheet. The asset recognised is matched by a deferred liability to pay future rentals. In addition, assets financed by a deferred purchase arrangement are similarly reflected in non-current assets, with the liability to the merchant bank included in long term borrowings.

#### Operating Leases:

Rentals paid under operating leases are charged directly to Comprehensive Income and Expenditure Statement as an expense in of the services benefiting from use of the leased property, plant and equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments.

**The Authority as Lessor:**

Finance Leases:

The Authority does not have any finance leases as a Lessor. Where operating leases exist, the assets are still shown on the Balance Sheet and any rental income is credited to the Comprehensive Income and Expenditure Statement.

Operating Leases:

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

## *9. Revenue Expenditure Funded From Capital Under Statute*

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

## *10. Charges to Revenue for Non-current Assets*

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

***a) Depreciation***

Depreciation is provided on all property, plant and equipment by the systematic allocation of their depreciable amounts over their useful lives. Buildings are depreciated over their remaining useful economic lives as assessed by the property valuer, with no allowance for a residual value. No depreciation charge is made for the land, community assets, assets under construction or assets held for sale.
Assets are depreciated using the straight line method over the following periods:

- ***Buildings*** - varies from asset to asset (the remaining useful economic life of each asset is reviewed at the same time as the revaluation is completed, new builds are usually estimated to have a useful life of 70 years).
- ***Infrastructure*** - 40 years.
- ***Vehicles, Plant, Furniture and Equipment*** - estimated useful life (averaging around 5 years).
- ***Components*** **-** will vary between 20 – 50 years for new components/blocks
- ***Assets Held for Sale*** – Depreciation is not charged on Assets Held for Sale.

Where an item of property, plant and equipment has major components whose cost is significant in relation to the total cost of the asset, the components are depreciated separately.

No depreciation is charged in the year of acquisition, whereas a full year's depreciation is charged in the year of disposal.

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

### b) Revaluation and Impairment

Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off are charged to the Comprehensive Income and Expenditure Statement.

### c) Amortisation

Intangible Assets are amortised over their useful life of no more than 5 years. The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## 11. Capital Receipts

Proceeds from the sale of assets (if over £10,000) are credited to the Capital Receipts Reserve. All such receipts are available to the Authority to enhance its programme of capital expenditure or to reduce external borrowing. Receipts used are transferred to the Capital Adjustment Account. The extent to which receipts have not been utilised at year end are reflected in the Balance Sheet as Capital Receipts Reserve. Where Capital Receipts are deferred they are recognised in the Unusable Deferred Capital Receipts Reserve until backed by cash receipts at which point they are transferred to the Usable Capital Receipts Reserve.

Any gains/losses on disposal of assets are taken to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Statutory regulations require a reversal of this entry to the Capital Adjustment Account via the Movement in Reserves Statement.

## 12. Accruals of Income and Expenditure

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

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

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

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

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

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

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The exceptions to this policy are as follows:

a) IT software licences are brought into account in the year they become due and are not apportioned over the years to which they may relate.

b) Provisions for doubtful debts are maintained for certain categories of income by individual departments.

### *13. Government Grants*

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

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

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

Monies advance as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line within the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed from the General County Fund via the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account.

Any amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### *14. Inventories and Long-Term Contracts*

Inventories are included within the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the average costing formula.

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

Other immaterial stocks, e.g. cleaning materials, books and stationery, are fully charged to the Comprehensive Income and Expenditure Statement in the year of purchase. Work in progress is shown at cost price.

### *15. Overheads and Support Service Costs*

The costs of overheads and support services are charged to those that benefit from the supply of the service in accordance with the costing principles in the Service Reporting Code of Practice 2015/16 (SeRCOP). The total absorption costing principle is used where the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core: costs relating to the Authority's status as a multi-functional, democratic organisation.

- Non Distributed Costs: discretionary benefits awarded to employees retiring early and impairment losses chargeable on assets held for sale.

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

### *16. Financial Instruments*

#### *a) Liabilities*

Financial liabilities are recognised on the Balance Sheet when the Authority becomes party to the contractual provisions of a financial instrument. Borrowings at fixed interest rates from either the PWLB or other financial institutions are initially measured at fair value and carried in the Balance Sheet at amortised cost.

***Borrowing at Variable Interest***

- Loans linked to the London Inter-bank Offered Rate (LIBOR) will be recorded at amortised cost.

- Loans at stepped interest rates (LOBO's) are recorded at fair value with interest charged to the Comprehensive Income and Expenditure Statement calculated at the effective rate of interest, which discounts estimate future cash payments over the life of the instrument (essentially an average rate for the expected duration of that loan), rather than the cash paid in a year.

Statutory regulations enable the Authority to negate the additional interest arising on LOBO's (if loan arranged before November 2007) by posting a reversal within the Movement in Reserves Statement to the Financial Instruments Adjustment Account.
The borrowings presented in the Balance Sheet are made up of the outstanding principal repayable plus accrued interest. Interest payable in the year is charged to the Comprehensive Income and Expenditure Statement.

***Premiums and Discounts Arising from Premature Repayment of Debt.***

- The Authority continuously reviews existing external loans and interest rates being paid, and has the option of restructuring or refinancing this debt. All such transactions are taken to the Comprehensive Income & Expenditure Statement in the year that the repayment is made.

- Statutory regulations enable the Authority to negate the additional charge/credit arising on such transactions by posting a reversal within the Movement in Reserves Statement to the Financial Instruments Adjustment Account.

Premiums and discounts arising from premature repayments of debt arising since 1 April 2007 are charged to the Movement in Reserves Statement over the lesser of the remaining period of the loan(s) being repaid or a maximum of 10 years. All outstanding premiums arising from earlier periods are being charged over a period of up to 25 years. The Financial Instruments Adjustment Account is the balancing account to hold the differences between statutory requirements and proper accounting practices for borrowings and investments.

***b) Assets***

***Loans and Receivables***

These are assets that have determinable payments or fixed interest rates with a fixed maturity date but are not quoted in an active market.

***Soft Loans***

Under certain criteria the Authority provides loans to foster parents and to older people with physical disabilities. These loans are interest free. The total value is considered to be immaterial to the Authority's accounts; therefore these loans have not been revalued on a fair value basis in accordance with the CIPFA COPLAA.

***Fair Value through the Comprehensive Income & Expenditure Statement***

Forward investment deals (investment negotiated one year but with actual settlement in a future year). These are accounted for as a derivative between the trade and settlement dates. The difference between the agreed rate of interest with that attributable for a loan negotiated at 31 March with similar contractual terms will show a gain or loss that is taken to the Comprehensive Income and Expenditure Statement.

## *17. Employee Benefits*

- ***Benefits Payable During Employment***

Short term employee benefits are those due to be settled wholly within 12 months of the year end. They include such benefits as; wages, salaries, paid annual leave, paid sick leave and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year the employees render services to the Authority. An accrual is made for the cost of holiday entitlements, outstanding flexi leave and Time Off in Lieu earned by employees but not taken before the year-end, which employees can carry forward into the following financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus of Deficit on the Provision of Services within the Comprehensive Income and Expenditure Statement but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

- ***Termination Benefits***

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. Redundancy costs are recognised immediately in the Comprehensive Income and Expenditure Statement against the appropriate service, or on the Non Distributed Cost line at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises the costs for a restructuring.

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

- ***Post Employment Benefits***

***Pension Schemes***

Employees of the Authority are members of two separate pension schemes:

- **The Local Government Pensions Scheme (LGPS) (administered by the Authority)**

- **The Teachers' Pension Scheme (administered by Capita Teacher's Pensions on behalf of the Department for Education)**

Both schemes provide defined benefits to members (retirement lump sums and pensions) earned as employees work for the Authority.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in year

- ***The Local Government Pension Scheme***

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

The liabilities of the scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the 'projected unit method'. This is based on an assessment of future payments that will be made in relation to retirement benefits earned to date by employees and assumptions about mortality rates, employee turnover and projected earnings.

Liabilities are discounted to their value at current prices using a discount rate of 3.4%.

The assets of the fund attributable to the Authority are included in the Balance Sheet at fair value:

- Quoted securities - current bid price
- Unquoted securities - professional estimate
- Unitised securities - current bid price
- Property - market value

The change in the net pensions liability is analysed into the following components:

- **Service Cost comprising:**

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

  - *Past service cost* - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years- debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

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

- **Remeasurements comprising:**

  - *The return on plan assets* - excluding amounts included in net interest on the net defined benefit liability (asset) - charged to the Pension Reserve as Other Comprehensive Income and Expenditure.

  - *Actuarial gains and losses* - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pension Reserve as Other Comprehensive Income and Expenditure.

- Contributions paid to the Pension Fund - cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace with debits and credits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

- ***Discretionary Benefits***

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the LGPS.

### *18. Value Added Tax (VAT)*

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

### *19. Contingent Liabilities*

A contingent liability arises where an event has taken place that gives the Authority a possible obligation. The existence of such an obligation will only be confirmed by the occurrence of uncertain future events not wholly in within the control of the Authority.

Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

### *20. Contingent Assets*

A contingent asset arises where an event has taken place that gives the Authority a possible asset. The existence of such an asset will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### *21. Events after the Reporting Period*

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

***a)*** Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.

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

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

### *22. Collection Fund Adjustment Account*

The Authority is a precepting authority who levies a precept on the collection funds of billing authorities (district/borough Councils).

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and non-domestic rates income. The key features of the funds relevant to accounting for council tax and business rates in the core financial statements are:

***a)*** In its capacity as a billing authority an authority acts as an agent: it collects and distributes:
- council tax income on behalf of the major preceptors and itself,
- non-domestic rates income on behalf of the central government, the major preceptors and itself.

***b)*** While the council tax and business rates income for the year credited to the collection fund is the accrued income for the year, regulations determine when it should be released from the collection fund and transferred to the General Fund of the billing authority or paid out of the collection funds to the major preceptors, (and central government for business rates) and in turn credited to their General Fund.

Council tax and non-domestic rates income included in the CIES for the year is the accrued income for the year. The difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and is included as a reconciling item in the Movement in Reserves Statement.

Since the collection of council tax and non-domestic rates income is in substance an agency arrangement, the cash collected by the billing authority from council tax and non-domestic rates debtors belongs proportionally to the billing authority and the major preceptors (and Central Government for business rates). There will therefore be a debtor / creditor position between the billing authority and each major preceptor (and Central Government) to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from council tax and non-domestic rates payers.

### *23. Accounting for the Costs of the Carbon Reduction Commitment Scheme*

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

### *24. Schools*

The *Code of Practice on Local Authority Accounting in the UK* confirms that the balance of control for Local Authority maintained schools (those categories of school identified in the School Standards Framework Act 1998, as amended) lies with the Authority.The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the Local Authority financial statements. Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority. The Authority does not recognise, in the case of Voluntary Aided (VA) or Voluntary Controlled (VC) schools, any land or building assets controlled and owned by the church diocese.

### *25. Investment Properties*

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

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on Disposal.

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

### *26. Joint Operations*

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

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

### *27. IFRS 13*

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

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

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

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

Level 1 - unadjusted quoted prices in active markets for items identical to the asset being measured.

Level 2 - inputs other than quoted prices in active markets that are directly or indirectly observable. Observable inputs are developed using data, such as publicly available information of actual transactions that reflect assumptions that market participants would use.

Level 3 - inputs are unobservable.

# Statement of Responsibilities for the Statement of Accounts

### *THE AUTHORITY'S RESPONSIBILITIES*

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Finance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts.

These accounts were approved at a meeting of the Constitution Committee on 27 September 2016.

**N RUSHTON**
**LEADER OF THE COUNTY COUNCIL AND CHAIRMAN OF THE CONSTITUTION COMMITTEE**
**27th SEPTEMBER 2016**

### *THE DIRECTOR OF FINANCE RESPONSIBILITIES*

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

In preparing this Statement of Accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently,
- Made judgements and estimates that were reasonable and prudent,
- Complied with the Local Authority Code,
- Kept proper accounting records which were up to date,
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts has been prepared in accordance with proper practices and presents a true and fair view of the financial position of Leicestershire County Council and its income and expenditure for the year ended 31 March 2016.

**C TAMBINI**
**DIRECTOR OF FINANCE**
**27th SEPTEMBER 2016**

# Pension Fund

***(Registration number: 00328856RQ)***

## *Introduction*

1. Under Local Government Pension Scheme Regulations the County Council is required to maintain a Pension Fund for certain categories of its employees together with the majority of employees of District Councils and other bodies that were formerly under the control of Local Authorities.

   In addition, certain other bodies are eligible to join if the County Council agrees, and a number of voluntary/charitable bodies have obtained membership in this way. Membership of the scheme is optional for all employees, although a written election not to join must be made if employees wish to remain outside the scheme. Teachers, Firefighters and Police Officers all have their own schemes.

   Details of the other admitted and scheduled bodies in the Fund are shown in note 5.

   There were 33,043 contributors to the Fund at 31 March 2016 and 24,690 of pensions were in payment.

2. Actuarial Position:

   a) Local Government Pension Funds, in common with other pension funds in both public and private sectors, have periodic valuations to assess the extent to which assets accumulated are adequate to meet future liabilities. To ensure that the fund remains financially sound to meet benefit payments, the actuary recommends the rate of employer contributions on an individual employer basis for each employing body in the fund on a triennial basis.

      The Council's actuary, Hymans Robertson LLP completed the latest triennial valuation, as at 31 March 2013. The change in contribution rates resulting from the actuarial valuation as at 31 March 2013 was effective from 1 April 2014. This review resulted in a requirement for the common contribution rate of employer's contributions to increase to 18.2% of pensionable pay. This common rate for all employers is adjusted to reflect the individual circumstances of different employing bodies. The actual contribution rate payable by most employing bodies is above the common contribution rate, due to the requirement to reduce the current deficit.

   b) The valuation method adopted by the actuary is the projected unit valuation method which is consistent with the aim of achieving a 100% funding level. This assesses the cost of benefits accruing to existing members during the year following the valuation, allowing for future salary increases.

   c) The 2013 valuation revealed that the Fund's assets which at 31 March 2013 were valued at £2,628m were sufficient to meet approximately 72% of the liabilities accrued up to that date. Assets were valued at their market value.

   d) In order to value both those liabilities which have accrued at the valuation date and those accruing in respect of future service; it has been assumed that the Fund's assets are invested in line with its long term investment strategy.

   e) The key financial assumptions adopted for this valuation are as follows:

| Financial Assumptions | Mar 2013 % p. a. Nominal | Mar 2013 % p. a. Real |
|---|---|---|
| Funding basis discount rate<br>Pay increases*<br>Price inflation/pension increases | 4.8%<br>4.3%<br>2.5% | 2.3%<br>1.8%<br>0.0% |

* Plus an allowance for promotional pay increases.

The nominal rate is the actual return and the real return takes into account inflation.

3. In 2015/16 the average employer rate was 21.3% of pay (20.3% 2014/15).

4. The County Council has delegated the management of the Fund to its Pension Fund Management Board, which consists of ten voting members and three non-voting staff representatives. The voting members are split into five County Council members, two from Leicester City Council and two representing the District Councils and a single member representing De Montfort / Loughborough Universities. The Board receives investment advice from Hymans Robertson LLP and meets quarterly to consider relevant issues.

5. List of admitted and scheduled bodies:

The Pension Fund contributors include Authorities consisting of Blaby District Council, Charnwood Borough Council, De Montfort University, Harborough District Council, Hinckley & Bosworth Borough Council, Leicester City Council, Leicester, Leicestershire and Rutland Combined Fire Authority, Office of the Police and Crime Commissioner for Leicestershire, Leicestershire County Council, Leicestershire & Rutland Probation Board, Loughborough University, Melton Borough Council, North West Leicestershire District Council, Oadby & Wigston Borough Council, Rutland County Council.

Schools consisting of Abington, Asfordby Hill, Ashby Hill Top, Ashby School, Ash Field, Barwell C of E, Battling Brook, Beacon Academy, Belvoir & Melton Academy, Birkett House, Blessed Cyprian Tansi MAT, Bosworth Academy, Bottesford, Bringhurst, Brockington, Brocks Hill, Brooke Hill, Brookvale High, Broomfield, Broom Leys, Bushloe, Captain’s Close, Casterton Business and Enterprise College, Castle Donington College, Castle Rock, Catmose Federation, Church Hill Infant, Church Hill Junior, Cobden, Corpus Christi MAT, Cosby, Countesthorpe Community College, Discovery Schools, Dorothy Goodman, Eastfield, Fairfield, Falcons Free School, Farndon Fields, Forest Way, Frisby, Gaddesby, Gartree, Gilmorton Chandler, Glen Hills, Glenmere Langmoor, Great Bowden, Great Dalby, Groby Community College, Guthlaxton, Hall Orchard, Hastings High, Heathfield, Hinckley Academy, Holywell, Humberstone Junior, Humphrey Perkins, Huncote, Ibstock Community College, Ivanhoe College, Ivanhoe under 5s, Kibworth High, King Edward VII, Kirby Muxloe, Krishna Avanti Free School, Lady Jane Grey, Langham, Launde, Leicester Academies Charitable Trust, Leighfield, Leysland High, Limehurst, Lionheart Academies Trust, Long Field, Loughborough C of E Primary, Lubenham All Saints, Lutterworth College, Lutterworth High, Manor High, Market Bosworth High, Market Harborough CE, Martin High, The Meadow, Meadowdale, Measham, Mercenfeld, Merton, Millfield LEAD, Mountfields Lodge, Mowbray Education Trust, Newbridge, Old Dalby, Outwoods Edge, The Pastures, Pochin School, Queensmead, Queniborough, Ratby, Rawlins, Red Hill Field, Redmoor High, Rendell, Ridgeway, Robert Bakewell, Robert Smyth, Rothley, Roundhill, rutland Learning Trust, Ryhall, St Dominics Catholic MAT, St. Gilbert of Sempringham, St. Michael & All Angels, St Peters C of E, Samworth Enterprise Academy, South Charnwood, South Wigston High, Stafford Leys, Stanton under Bardon, Stephenson Studio School, Stonebow, Swallowdale, Thomas Estley, Thornton, Thringstone, Thrussington, Townlands, Uppingham Community College, Welland Park, William Bradford, Winstanley, Woodbrook Vale, Wreake Valley, Brooksby Melton College, Gateway Sixth Form College, Leicester College, Loughborough College of FE, Regent College, South Leicestershire College, Stephenson College, Wyggeston QEI College.

Other employers consisting of ABM Catering, Age Concern, Aspens Services, Bradgate Park Trust, Capita Business Services, Capita Managed IT Solutions, Children’s Links, East Midlands Shared Services, East West Community Project, Eastern Shires Purchasing Organisation, EMH Homes, Family Action, Fusion Lifestyle, G4S, G Purchase, ICare, Lifeline Project, Melton Learning Hub, National Youth Agency, Quadron Services, Rushcliffe Care, Seven Locks Housing, SLM Community Leisure, Spire Homes, VISTA, Voluntary Action Leicester.

Parish and Town Councils consisting of Anstey PC, Ashby TC, Ashby Woulds TC, Barrow Upon Soar PC, Barwell PC, Blaby PC, Braunstone TC, Broughton Astley PC, Countesthorpe PC, Glen Parva PC, Kirby Muxloe PC, Leicester Forest East PC, Lutterworth TC, Market Bosworth PC, Mountsorrel PC, Shepshed TC, Sileby PC, Syston TC, Thurmaston PC, Whetstone PC.

# Fund Account for the Year Ended 31 March 2016

| Restated 2014/15 £m | | Notes | 2015/16 £m | |
|---|---|---|---|---|
| | **Contributions and Benefits** | | | |
| 150.9 | Contributions | 3 | 161.2 | |
| 3.7 | Transfers in | 4 | 4.2 | |
| 154.6 | | | | **165.4** |
| (126.0) | Benefits | 5 | (134.3) | |
| (61.3) | Leavers | 6 | (5.9) | |
| (1.4) | Administrative Expenses | 7 | (1.2) | |
| (188.7) | | | | (141.4) |
| **(34.1)** | **Net additions from dealings with members** | | | **24.0** |
| | **Returns on investments** | | | |
| 26.0 | Investment income | 8 | 30.3 | |
| 402.1 | Change in market value of investments | 9 | (11.5) | |
| (5.7) | Investment management expenses | 11 | (5.1) | |
| **422.4** | **Net returns on investments** | | | **13.7** |
| **388.3** | **Net increase in the fund during the year** | | | **37.7** |
| | Net assets of the scheme | | | |
| 2,739.9 | At 1 April | | | 3,128.1 |
| **3,128.2** | **Net assets of the scheme At 31 March** | | | **3,165.8** |

# Net Assets Statement as at 31 March 2016

| Restated 2014/15 £m | | Notes | 2015/16 £m |
|---|---|---|---|
| 3,128.2 | Investment assets | 9 | 3,159.6 |
| (8.1) | Investment liabilities | 9 | (2.3) |
| **3,120.1** | | | **3,157.3** |
| 10.1 | Current Assets | 13 | 1.9 |
| (2.0) | Current Liabilities | 13 | (2.3) |
| **3,128.2** | **Net Assets of the Fund at 31 March** | | **3,165.9** |

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position on the Scheme, which does take account of such obligations, is set out in the Actuary's Report.

The notes on pages 102 to 123 form part of the Financial Statements.

# Notes to the Accounts

## 1. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its position at year-end as at 31st March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

## 2. Accounting policies

The following principal accounting policies, which have been applied consistently, have been adopted in the preparation of the financial statements:

### Investments

Equities traded through the Stock Exchange Electronic Trading Service (SETS) are valued at bid price. Other quoted securities and financial futures are valued at the last traded price. Private equity investments and unquoted securities are valued by the fund managers at the year end bid price, or if unavailable in accordance with generally accepted guidelines. Accrued interest is excluded from the market value of fixed interest securities and index-linked securities but is included in investment income receivable.

Pooled Investment Vehicle units are valued at either the closing bid prices or the closing single price reported by the relevant investment managers, which reflect the accepted market value of the underlying assets.

Private equity, global infrastructure and hedge fund valuations are based on valuations provided by the managers at the year end date. If valuations at the year end are not produced by the manager, the latest available valuation is adjusted for cash flows in the intervening period.

Property investments are stated at open market value based on an expert valuation provided by a RICS registered valuer and in accordance with RICS guidelines.

Options are valued at their mark to market value. Forward foreign exchange contracts outstanding at the year end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. The investment reconciliation table in note 9 discloses the forward foreign exchange settled trades as net receipts and payments.

### Investment Income

Income from equities is accounted for on the date stocks are quoted ex-dividend. Income from overseas investments is recorded net of any withholding tax.

Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from other investments is accounted for on an accruals basis.

The change in market value of investments (including investment properties) during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value but excluding translation gains and losses arising from assets denominated in foreign currency.

### *Foreign currencies*

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated at a rate that is relevant at the time of the receipt of the income or the exchange rate at the year end, whichever comes first.

Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

### *Contributions*

Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate issued by the Fund's actuary. Additional contributions from the employer are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.

Additional payments for early retirements relate to the actuarially assessed extra cost to the Fund of employing bodies allowing their members to retire in advance of normal retirement age. These costs are reimbursed to the Fund by employing bodies and are accounted for on an accrual basis.

### *Benefits payable*

Where members can choose to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.

Other benefits are accounted for on the date the member leaves the scheme or on death.

### *Transfers to and from other schemes*

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the Scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before the year end, and where the amount of the transfer can be determined with reasonable certainty.

### *Other Expenses*

Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.

Employee expenses have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged on an accruals basis.

## 3. *Contributions*

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| | ***Employers*** | |
| 110.4 | Normal | 119.9 |
| 0.0 | Voluntary additional | 0.4 |
| 2.5 | Advanced payments for early retirements | 2.9 |
| 1.6 | Additional payments for ill-health retirements | 0.9 |
| | ***Members*** | |
| 35.9 | Normal | 36.7 |
| 0.5 | Purchase of additional benefits | 0.4 |
| **150.9** | **Total** | **161.2** |

Additional payments for early retirements are paid by employers, once calculated and requested by the Fund, to reimburse the Pension Fund for the cost to the Fund of employees who are allowed to retire before their normal retirement age. Additional payments for ill-health retirements are paid by the insurance company, where the employer has taken out ill-health insurance and the claim has been accepted as valid. Purchase of additional benefits by members allows either extra service to be credited on top of any service earned via employment, or an additional annual pension amount in cash to be paid following retirement. Termination valuation payments relate to the actuarially assessed deficit within an employer's sub-fund when their last active employee leaves.

The contributions can be analysed by the type of Member Body as follows:

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 38.5 | Leicestershire County Council | 41.7 |
| 105.4 | Scheduled bodies | 111.5 |
| 7.0 | Admitted bodies | 8.0 |
| **150.9** | **Total** | **161.2** |

## 4. *Transfers In*

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 3.7 | Individual transfers in from other schemes | 4.1 |
| **3.7** | **Total** | **4.1** |

## 5. *Benefits*

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 98.4 | Pensions | 103.3 |
| 23.9 | Lump sum retirement benefit | 27.8 |
| 3.7 | Lump sum death benefit | 3.2 |
| **126.0** | **Total** | **134.3** |

The benefits paid can be analysed by type of Member Body as follows:-

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 46.0 | Leicestershire County Council | 50.9 |
| 71.0 | Scheduled bodies | 73.3 |
| 9.0 | Admitted bodies | 10.1 |
| **126.0** | **Total** | **134.3** |

## 6. *Payments to and on Account of Leavers*

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 0.3 | Refunds to members leaving the scheme | 0.6 |
| 0.2 | Payments for members joining state scheme | 0.3 |
| 6.9 | Individual transfers to other schemes | 5.0 |
| 53.9 | Bulk transfers to other schemes | 0.0 |
| **61.3** | **Total** | **5.9** |

## 7. *Administration Expenses*

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 1.1 | Administration and processing | 1.0 |
| 0.1 | Actuarial fees | 0.1 |
| 0.2 | Computer system costs | 0.1 |
| **1.4** | **Total** | **1.2** |

## 8. *Investment Income*

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 0.0 | Income from fixed interest securities | 0.0 |
| 2.4 | Dividends from equities | 2.5 |
| 0.0 | Income from Government Bonds | 0.1 |
| 3.3 | Income from index-linked securities | 2.6 |
| 14.2 | Income from pooled investment vehicles | 18.0 |
| 5.5 | Net rents from properties | 5.8 |
| 0.3 | Interest on cash or cash equivalents | 0.2 |
| 0.3 | Net Currency Profit / (Loss) | 1.1 |
| 0.0 | Securities Lending Commission | 0.0 |
| 0.0 | Insurance Commission | 0.0 |
| **26.0** | **Total** | **30.3** |

### 9. *Investments*

| | Restated Value at 1 April 2015 £m | Purchases at Cost and Derivative Payments £m | Sales Proceeds and Derivative Receipts £m | Change In Market Value £m | Value at 31 March 2016 £m |
|---|---|---|---|---|---|
| Equities | 87.0 | 42.2 | (53.7) | (3.3) | 72.2 |
| Government Bonds | 0.0 | 19.7 | 0.0 | 1.8 | 21.5 |
| Index-linked securities | 304.9 | 103.0 | (112.1) | 7.8 | 303.6 |
| Pooled investment vehicles | 2,582.8 | 355.1 | (318.7) | 19.3 | 2,638.5 |
| Properties | 90.5 | 2.8 | (4.4) | 7.3 | 96.2 |
| Cash and currency | 52.5 | 0.0 | (37.7) | 0.0 | 14.8 |
| Derivatives contracts | 0.3 | 77.1 | (24.6) | (44.4) | 8.4 |
| Other investment balances | 2.2 | 0.0 | (0.1) | 0.0 | 2.1 |
| **Total** | **3,120.2** | **599.9** | **(551.3)** | **(11.5)** | **3,157.3** |

The change in the value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The Fund has investments of £233.087m in the Legal & General North America index fund (31/3/15, £207.503m) and £229.777m in the Legal & General FTSE RAFI North America fund (31/3/15, £209.887m) that exceed 5% of the total value of net assets. At 31/3/15 the Fund had investments in the Legal & General UK equity index fund (£187.542m) and the Legal & General UK Core equity index fund (£160.464m) which exceeded 5% of the total value of net assets at that date.

The Fund had no investments which exceed 5% of any class or type of security.

| Restated 2014/15 £m | | 2015/16 £m |
|---|---|---|
| | ***Equities*** | |
| 13.2 | UK quoted | 10.0 |
| 73.9 | Overseas quoted | 62.2 |
| **87.1** | | **72.2** |
| | ***Government Bonds*** | |
| **0.0** | ***UK Government Quoted*** | **21.5** |
| | ***Index Linked Securities*** | |
| 176.1 | UK quoted | 188.2 |
| 128.8 | Overseas quoted | 115.5 |
| **304.9** | | **303.7** |
| | ***Pooled investment vehicles (unquoted)*** | |
| 214.1 | Property funds | 222.4 |
| 124.4 | Private equity | 121.0 |
| 302.8 | Bond and debt funds | 347.4 |
| 2.9 | Hedge funds | 3.2 |
| 1,574.2 | Equity-based funds | 1,563.2 |
| 71.0 | Commodity-based funds | 7.4 |
| 52.1 | Timberland fund | 65.9 |
| 134.7 | Managed futures fund | 137.8 |
| 31.5 | Targeted return fund | 84.1 |
| 75.0 | Infrastructure fund | 86.1 |
| **2,582.7** | | **2,638.5** |
| | ***Properties*** | |
| **90.5** | **UK (Note 12)** | **96.2** |
| **52.5** | **Cash and currency** | **14.8** |
| | ***Derivatives contracts*** | |
| 1.6 | Forward foreign exchange assets | 9.0 |
| 3.3 | Currency option assets | 0.2 |
| 3.5 | Other option assets | 1.4 |
| (6.9) | Forward foreign exchange liabilities | (2.3) |
| (1.2) | Currency option liabilities | 0.0 |
| **0.3** | **Sterling Denominated** | **8.3** |
| **2.2** | **Other Investment Balances** | **2.1** |
| **3,120.2** | **Total Investments** | **3,157.3** |

At 31 March 2016 pooled investment vehicles include investments in fund-of-funds which have an underlying value of £118.971m in private equity, £17.526m in illiquid corporate bonds and £65.885m in timberland.

## 10. Derivatives

The Fund holds derivatives for a number of different reasons. Forward foreign exchange contracts are held to benefit from expected changes in the value of currencies relative to each other. Futures can be held to gain full economic exposure to markets without the requirement to make a full cash investment, and can be held to ensure that the Fund's exposures are run efficiently. Options are generally used to express an investment view but can give a much higher economic exposure than is required to be paid for the options – they also ensure that the potential loss is limited to the amount paid for the option.

### *Forward Foreign Exchange Contracts*

*All forward foreign exchange contracts are classed as 'Over the Counter' and at the year end the net exposure to forward foreign exchange contracts can be summarised as follows:*

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| (1.7) | Active currency positions (those whose purpose is solely to seek economic gain) | (1.5) |
| (3.6) | Passive currency positions (those whose purpose is to hedge the Fund's benchmark exposure to currencies back to sterling) | 8.2 |
| **(5.3)** | **Total** | **6.7** |

### *Options*

All options held by the Fund were exchange traded. The value of these options and the assets to which they were exposed can be summarised as follows:

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 2.1 | Currency-based | 0.2 |
| 3.5 | Equity rate-based | 1.4 |
| **5.6** | **Total** | **1.6** |

### *11. Investment Management Expenses*

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 5.6 | Administration, management and custody | 5.0 |
| 0.1 | Other advisory fees | 0.1 |
| **5.7** | **Total** | **5.1** |

### *12. Property Investments*

| 31 March 2015 £m | | 31 March 2016 £m |
|---|---|---|
| 63.6 | Freehold | 64.6 |
| 13.1 | Long Leasehold (over 50 years unexpired) | 15.5 |
| 13.8 | Medium/Short Leasehold (under 50 years unexpired) | 16.1 |
| **90.5** | **Total** | **96.2** |

All properties, except the Fund's farm investment, were valued on an open market basis by Nigel Holroyd and Adrian Payne of Colliers Capital UK at 31st March 2016. The Fund's farm was valued on an open market basis by James Forman of Leicestershire County Council. All valuers are Members of the Royal Institute of Chartered Surveyors.

## *13. Current Assets and Liabilities*

| 2014/15 £m | | 2015/16 £m |
|---|---|---|
| 6.9 | Contributions due from employers | 8.2 |
| 0.1 | Cash Balances | 0.1 |
| 0.8 | Other Debtors | 0.8 |
| 2.2 | Due from Ministry of Justice | 1.8 |
| **10.0** | **Current assets** | **10.9** |
| (0.3) | Due to Leicestershire County Council | (0.4) |
| (1.2) | Fund Management Fees Outstanding | (0.9) |
| (0.5) | Other Creditors | (1.0) |
| **(2.0)** | **Current liabilities** | **(2.3)** |
| **8.0** | **Net current assets and liabilities** | **8.6** |

Contributions due at the year end were received by the due date.

The amount due from the Ministry of Justice relates to the actuarially assessed deficit in respect of Magistrates' Court staff that were formerly in the LGPS. The amount is payable over 10 years at £365,000 per annum.

### 14. *Analysis of Investments by Manager*

The Fund employs external investment managers to manage all of its investments apart from an amount of cash and a farm property, which are managed by Leicestershire County Council. This structure ensures that the total Fund performance is not overly influenced by the performance of any one manager.

The market value of investments in the hands of each manager is shown in the table below:-

| At 31 March 2015 £m | % | | At 31 March 2016 £m | % |
|---|---|---|---|---|
| | | ***Investment Manager*** | | |
| 1,193.4 | 38.2 | Legal & General | 1,188.6 | 37.6 |
| 260.6 | 8.4 | Kames Capital | 273.5 | 8.7 |
| 224.5 | 7.2 | Ruffer LLP | 215.0 | 6.8 |
| 165.8 | 5.3 | Aviva Investors | 166.8 | 5.3 |
| 139.1 | 4.5 | Kleinwort Benson Investors | 140.8 | 4.5 |
| 134.7 | 4.3 | Aspect Capital | 137.8 | 4.4 |
| 118.0 | 3.8 | Colliers Capital UK | 124.4 | 3.9 |
| 93.0 | 3.0 | Prudential / M&G | 120.0 | 3.8 |
| 122.0 | 3.9 | Adams Street Partners | 119.0 | 3.8 |
| 110.1 | 3.5 | Delaware Investments | 108.9 | 3.4 |
| 113.1 | 3.6 | Kempen Capital | 107.9 | 3.4 |
| 75.7 | 2.4 | Partners Group | 105.0 | 3.3 |
| 31.5 | 1.0 | Pictet Asset Management | 84.1 | 2.7 |
| 76.0 | 2.4 | Ashmore | 80.3 | 2.5 |
| 52.1 | 1.7 | Stafford Timberland | 65.9 | 2.1 |
| 38.5 | 1.2 | Industry Funds Management | 43.0 | 1.4 |
| 36.5 | 1.2 | Kravis Kohlberg Roberts | 43.0 | 1.4 |
| 39.6 | 1.3 | JP Morgan Asset Management | 24.6 | 0.8 |
| 2.4 | 0.1 | Catapult Venture Managers | 2.1 | 0.0 |
| 0.8 | 0.0 | Permal (formerly Fauchier Partners) | 0.7 | 0.0 |
| 23.9 | 0.8 | Internally Managed and Currency Managers | 5.9 | 0.2 |
| 68.9 | 2.2 | Investec Asset Management | 0.0 | 0.0 |
| 0.0 | 0.0 | Capital International | 0.0 | 0.0 |
| **3,114.5** | | **Total** | **3,157.3** | |

### 15. *Custody of Assets*

All the Fund's directly held assets are held by external custodians and are therefore not at risk from the financial failure of any of the Fund's investment managers. Most of the pooled investment funds are registered with administrators that are independent of the investment manager.

### 16. *Operation and Management of fund*

Details of how the Fund is administered and managed are included in the Pension Fund Annual Report.

### 17. *Employing bodies and fund members*

A full list of all bodies that have active members within the Fund is included on page 99

### 18. *Actuarial valuation*

At the date of the Fund's last actuarial valuation (31 March 2013) the Fund had assets of £2,628m. At that date the Fund's assets covered 72% of its accrued liabilities.

### 19. *Valuation of financial instruments carried at fair value*

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of the information used to determine fair values.

*Level 1*
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprised quoted equities, quoted fixed interest securities, quoted index-linked securities and pooled investment vehicles where the underlying assets fall into one of these categories.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

*Level 2*
Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

*Level 3*
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, hedge funds and infrastructure, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Leicestershire County Council Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP.

The values of the investment in hedge funds and infrastructure are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following tables provide an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which fair value is observable.

| Values at 31st March 2016 | Quoted market price<br>Level 1<br>£000 | Using observable inputs<br>Level 2<br>£000 | With significant unobservable inputs<br>Level 3<br>£000 | Total<br>£000 |
|---|---|---|---|---|
| Financial assets at fair value | 2,241,986 | 641,395 | 276,178 | 3,159,559 |
| Financial liabilities at fair value | (2,277) | | | (2,277) |
| **Net financial assets** | **2,239,709** | **641,395** | **276,178** | **3,157,282** |

| Values at 31st March 2015 | Quoted market price<br>Level 1<br>£000 | Using observable inputs<br>Level 2<br>£000 | With significant unobservable inputs<br>Level 3<br>£000 | Total<br>£000 |
|---|---|---|---|---|
| Financial assets at fair value | 2,305,965 | 567,867 | 248,738 | 3,122,570 |
| Financial liabilities at fair value | (8,086) | | | (8,086) |
| **Net financial assets** | **2,297,879** | **567,867** | **248,738** | **3,114,484** |

## *20. Nature and Extent of Risks Arising from Financial Instruments*

### *Risk and risk management*

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet the Fund's required cash flows. These investment risks are managed as part of the overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Management Board.

### *a) Market risk*

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, Leicestershire County Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks via an annual strategy review which ensures that market risk remains within acceptable levels. On occasion equity futures contracts and exchange traded option contracts on individual securities may be used to manage market risk on investments, and in exceptional circumstances over-the-counter derivative contracts may be used to manage specific aspects of market risk.

***Other price risk***

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such investments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. For all investments held by the Fund, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure that it is within the limits specified in the Fund's investment strategy.

*Other price risk – sensitivity analysis*

Following analysis of historic data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, Leicestershire County Council has determined that the following movements in market prices risk are reasonably possible for the 2016/17 reporting period:

| Asset type | Potential market movements (+/-) |
|---|---|
| Overseas government bonds | 8% |
| Global credit | 10% |
| Global government index-linked bonds | 8% |
| UK equities | 16% |
| Overseas equities | 19% |
| UK property | 15% |
| Private equity | 28% |
| Infrastructure | 14% |
| Commodities | 14% |
| Hedge funds and targeted return funds | 12% |
| Timberland | 16% |
| Cash | 1% |

The potential price changes disclosed above are broadly consistent with one-standard deviation movement in the value of assets. The sensitivities are consistent with the assumptions contained in the annual strategy review and the analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown in the second table):

| Asset type | Value at 31st March 2016 | Percentage change | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £000 | % | £000 | £000 |
| UK equities | 9,991 | 16 | 11,590 | 8,392 |
| Overseas equities | 62,243 | 19 | 74,069 | 50,417 |
| UK Government Bonds | 21,501 | 8 | 23,221 | 19,781 |
| Global index-linked bonds | 303,669 | 8 | 327,963 | 279,375 |
| Pooled property funds | 222,379 | 15 | 255,736 | 189,022 |
| Pooled private equity funds | 121,038 | 28 | 154,929 | 87,147 |
| Pooled bond and debt funds | 347,372 | 10 | 382,109 | 312,635 |
| Pooled hedge funds | 3,201 | 12 | 3,585 | 2,817 |
| Pooled equity funds | 1,563,238 | 19 | 1,860,253 | 1,266,223 |
| Pooled commodity funds | 7,373 | 14 | 8,403 | 6,339 |
| Pooled targeted return funds | 84,129 | 12 | 94,224 | 74,034 |
| Pooled timberland fund | 65,885 | 16 | 76,427 | 55,343 |
| Pooled managed futures fund | 137,824 | 12 | 154,363 | 121,285 |
| Pooled infrastructure fund | 86,054 | 14 | 98,102 | 74,006 |
| UK property | 96,255 | 15 | 110,659 | 81,791 |
| Cash and currency | 14,759 | 1 | 14,907 | 14,611 |
| Options, futures, other investment balances, current assets and current liabilities | 18,964 | 1 | 19,154 | 18,9774 |
| **Total assets available to pay benefits** | **3,165,843** | | **3,669,694** | **2,661,992** |

| Asset type | Restated Value at 31st March 2015 | Percentage change | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £000 | % | £000 | £000 |
| UK equities | 13,225 | 16 | 15,341 | 11,109 |
| Overseas equities | 73,839 | 19 | 87,868 | 59,810 |
| Global index-linked bonds | 304,938 | 8 | 329,333 | 280,543 |
| Pooled property funds | 214,149 | 15 | 246,271 | 182,027 |
| Pooled private equity funds | 124,432 | 28 | 159,273 | 89,591 |
| Pooled bond and debt funds | 302,801 | 10 | 333,081 | 272,521 |
| Pooled hedge funds | 2,901 | 12 | 3,249 | 2,553 |
| Pooled equity funds | 1,574,157 | 19 | 1,873,247 | 1,275,067 |
| Pooled commodity funds | 71,005 | 14 | 80,946 | 61,064 |
| Pooled targeted return funds | 31,524 | 12 | 35,307 | 27,741 |
| Pooled timberland fund | 52,107 | 16 | 60,444 | 43,770 |
| Pooled managed futures fund | 134,701 | 12 | 150,865 | 118,537 |
| Pooled infrastructure fund | 74,967 | 14 | 85,462 | 64,472 |
| UK property | 90,481 | 15 | 104,053 | 76,909 |
| Cash and currency | 52,423 | 1 | 52,947 | 51,899 |
| Options, futures, other investment balances, current assets and current liabilities | 10,520 | 1 | 10,625 | 10,415 |
| **Total assets available to pay benefits** | **3,128,170** | | **3,628,312** | **2,628,028** |

***Interest rate risk***

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is not highly exposed to interest rate risk but monitoring is carried out to ensure that the exposure is close to the agreed asset allocation benchmark.

The Fund's direct exposure to interest rate movements as at 31st March 2016 and 31st March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

| As at 31st March 2015 | Asset type | As at 31st March 2016 |
|---|---|---|
| 52,423 | Cash and Currency | 14,759 |
| 302,801 | Fixed interest securities | 368,873 |
| **355,224** | **Total** | **383,632** |

### *Interest rate risk sensitivity analysis*

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets to pay benefits, A 1% movement in interest rates (100 BPS) is consistent with the level of sensitivity expected within the Fund's asset allocation strategy and the Fund's investment advisors expect that long-term average rates are expected to move less than 100 BPS from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates.

| Asset type | Carrying amount as at 31st March 2016 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +100 BPS | -100 BPS |
| | £000 | £000 | £000 |
| Cash and Currency | 14,759 | 148 | (148) |
| Fixed interest securities | 368,873 | 3,689 | (3,689) |
| **Total** | **383,632** | **3,837** | **(3,837)** |

| Asset type | Carrying amount as at 31st March 2015 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +100 BPS | -100 BPS |
| | £000 | £000 | £000 |
| Cash and Currency | 52,423 | 524 | (524) |
| Fixed interest securities | 302,801 | 3,028 | (3,028) |
| **Total** | **355,224** | **3,552** | **(3,552)** |

### *Currency risk*

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk in financial instruments that are denominated in any other currency other than sterling. The Fund holds both monetary and non-monetary assets denominated in currencies other than sterling.

The Fund's currency rate risk is actively managed and the neutral position is to hedge 50% of the exposure back to sterling. The table below summarises the Fund's currency exposure if it was unhedged at as 31st March 2016 and as at the previous period end:

| Restated Asset value as at 31st March 2015 £000 | Currency exposure – asset type | Asset value as at 31st March 2016 £000 |
|---|---|---|
| 73,839 | Overseas equities | 62,243 |
| 128,791 | Overseas government index-linked bonds | 115,472 |
| 122,000 | Private equity pooled funds | 118,971 |
| 2,901 | Pooled hedge Funds | 3,201 |
| 1,199,483 | Overseas and Global equity-based pooled funds | 1,298,478 |
| 71,005 | Commodity-based pooled funds | 7,371 |
| 74,967 | Infrastructure pooled funds | 86,054 |
| 52,107 | Timberland pooled fund | 65,885 |
| 76,047 | Emerging Market Debt pooled fund | 80,343 |
| **1,801,140** | **Total overseas assets** | **1,838,018** |

*Currency risk – sensitivity analysis*

Following analysis of historical data in consultation with the Fund's investment advisors, it is considered that the likely volatility associated with foreign exchange rate movements is 13% (as measured by one standard deviation).

A 13% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of the long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 13% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| Currency exposure – asset type | Asset value as at 31st March 2016 | Change to net assets available to pay benefits | |
|---|---|---|---|
| | | +13% | -13% |
| | £000 | £000 | £000 |
| Overseas equities | 62,243 | 70,335 | 54,151 |
| Overseas government index-linked bonds | 115,472 | 130,483 | 100,461 |
| Private equity pooled funds | 118,888 | 134,344 | 103,432 |
| Pooled hedge Funds | 3,201 | 3,617 | 2,785 |
| Overseas equity-based pooled funds | 1,298,478 | 1,467,280 | 1,129,676 |
| Commodity-based pooled funds | 7,371 | 8,329 | 6,413 |
| Infrastructure pooled funds | 86,054 | 97,241 | 74,867 |
| Timberland pooled fund | 63,856 | 72,157 | 55,555 |
| Emerging Market Debt pooled fund | 80,343 | 90,788 | 69,898 |
| **Total change in assets available** | **1,835,906** | **2,074,574** | **1,597,238** |

| Currency exposure – asset type | Asset value as at 31st March 2015 | Change to net assets available to pay benefits | |
|---|---|---|---|
| | | +13% | -13% |
| | £000 | £000 | £000 |
| Overseas equities | 73,839 | 83,438 | 64,240 |
| Overseas government index-linked bonds | 128,791 | 145,534 | 112,048 |
| Private equity pooled funds | 122,000 | 137,860 | 106,140 |
| Pooled hedge Funds | 2,901 | 3,278 | 2,524 |
| Overseas equity-based pooled funds | 1,199,483 | 1,355,415 | 1,043,551 |
| Commodity-based pooled funds | 71,005 | 80,236 | 61,774 |
| Infrastructure pooled funds | 74,967 | 84,713 | 65,221 |
| Timberland pooled fund | 52,107 | 58,881 | 45,333 |
| Emerging Market Debt pooled fund | 76,047 | 85,933 | 66,161 |
| **Total change in assets available** | **1,801,140** | **2,035,288** | **1,566,992** |

At 31st March 2016 and 31st March 2016 the Fund has an active currency manager with a portfolio based on a notional value of £340m, and this is the maximum exposure that they are allowed to have. In order to achieve gains within their portfolios they utilise forward foreign exchange contracts and, on occasions, currency options. The portfolios have an average target volatility of 2.5% and as a result the Fund is exposed to currency risk through these portfolios. The table below shows the likely impact onto the net assets available to pay benefits.

| Currency exposure – asset type | Asset value as at 31st March 2016 | Change to net assets available to pay benefits | |
|---|---|---|---|
| | | +2.5% | -2.5% |
| | £000 | £000 | £000 |
| Active currency portfolios | 340,000 | 348,500 | 331,500 |
| **Total change in assets available** | **340,000** | **348,500** | **331,500** |

| Currency exposure – asset type | Asset value as at 31st March 2015 | Change to net assets available to pay benefits | |
|---|---|---|---|
| | | +2.5% | -2.5% |
| | £000 | £000 | £000 |
| Active currency portfolios | 340,000 | 348,500 | 331,500 |
| **Total change in assets available** | **340,000** | **348,500** | **331,500** |

### b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

Deposits are not made with banks and financial institutions unless they are rated independently and have a high credit rating. Many of the Fund's investment managers use the money market fund run by the Fund's custodian to deposit any cash within their portfolios, although one manager (Kames Capital) lends cash directly to individual counterparties in the London money markets. Any cash held directly by the Fund is deposited in an instant access interest-bearing account with National Westminster Bank or in a Money Market Fund.

The Fund believes it has managed its exposure to credit risk, and has never had any experience of default of uncollectible deposits. The Fund's cash holding at 31st March 2016 was £14.8m (31st March 2015: £52.4m).

### c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. All of the Fund's cash holdings are available for immediate access, although on some occasions this will involve withdrawing cash balances from the portfolios of investment managers.

The Fund is allowed to borrow to meet short-term cash flow requirements, although this is an option that is only likely to be used in exceptional circumstances.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert to cash. As at 31st March 2016 the value of illiquid assets (considered to be the Fund's investments in property, hedge funds, private equity, timberland and infrastructure) was £594.8 m, which represented 18.8% of total Fund assets. (31st March 2015: £559.0m, which represented 17.9% of total Fund assets).

The Fund remains cash flow positive for non-investment related items so there is no requirement to produce detailed cash flow forecasts. All investment related cash flows are known about sufficiently far in advance that they can be covered by taking action in a manner that is both cost-effective and in line with the Fund's investment strategy.

All financial liabilities at 31st March 2016 are due within one year.

*Refinancing risk*
The key risk is that the Fund will be forced to sell a significant proportion of its financial instruments at a time of unfavourable interest rates, but this appears a highly unlikely scenario. The Fund's investment strategy and the structure of its portfolios have sufficient flexibility to ensure that any required sales are considered to be the ones that are in the best financial interests of the Fund at that time. There are no financial instruments that have a refinancing risk as part of the Fund's treasury management and investment strategies.

*Securities Lending*
As at 31 March 2016, £3.9m of stock was on loan to an agreed list of approved borrowers through the Fund's Custodian in its capacity as agent lender. The loans were all in respect of equities and were covered by £1.2m of cash collateral and £3.0m of non-cash collateral.

Collateral is marked to market, adjusted daily and held by the custodian on behalf of the Fund. Income from stock lending amounted to £0.016m during the year and is detailed in note 8 to the accounts.

The Fund retains its economic interest in stocks on loan, and therefore the value is included in the Fund valuation. However there is an obligation to return collateral to the borrowers, therefore its value is excluded from the Fund valuation. The securities lending programme is indemnified, giving the Fund further protection against losses.

*Reputational Risk*
The Fund's prudent approach to the collective risks listed above and through best practice in corporate governance ensures that reputational risk is kept to a minimum.

### *21. Related Party Transactions*

From the information currently available there were no material transactions with related parties in 2015/16 that require disclosure under FRS8.

### *22. Contingent Liabilities*

When a member has left the Pension Fund before accruing sufficient service to qualify for a benefit from the scheme, they may choose either a refund of contributions or a transfer value to another pension fund. There are a significant number of these leavers who have not taken either of these options and as their ultimate choice is unknown, it is not possible to reliably estimate a liability. The impact of these 'frozen refunds' has, however, been considered in the calculation of the actuarial liabilities of the fund.

If all of these individuals choose to take a refund of contributions the cost to the Fund will be around £1.1m, although the statutory requirement of the Fund to pay interest to some members would increase this figure. Should all of the members opt to transfer to another scheme the cost will be considerably higher.

### *23. Contractual Commitments*

At 31st March 2016, the Fund had the following contractual commitments:-

(i) Undrawn commitments totalling $107,093,950 (£74,510,506) to twenty eight different pooled private equity funds managed by Adams Street Partners (31st March 2015 £86,611,149 to twenty seven different funds).
(ii) An undrawn commitment of £528,517 to two private equity funds managed by Catapult Venture Managers (31st March 2015 £655,601 to two funds).
(iii) An undrawn commitment of $27,425,208 (£19,081,060) to two KKR Global Infrastructure funds (31st March 2015 £29,911,904 to two funds)
(iv) An undrawn commitment of €8,112,500 (£6,431,922) to the Stafford International Timberland VI Fund (31st March 2015 £7,062,934)
(v) An undrawn commitment of $11,550,000 (£8,035,901) to the Stafford International Timberland VII Fund (31st March 2015 £15,661,839).
(vi) An undrawn commitment of £27,374,000 to the M & G Debt Opportunities Fund III (31st March 2015 £19,400,000 to the M & G Debt Opportunities Fund II, which became fully drawn during 2014/15)
(vii) An undrawn commitment of $15,000,000 (£10,436,235) to the IFM Global Infrastructure Fund.
(viii) An undrawn commitment of $40,000,000 (£27,829,959) to the Markham Rae Trade Capital Partners Fund.

### *24. Additional Voluntary Contributions (AVC's)*

The Fund has an arrangement with Prudential whereby additional contributions can be paid to them for investment, with the intention that the accumulated value will be used to purchase additional retirement benefits. AVCs are not included in the Pension Fund Accounts in accordance with Regulation 4(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009.

During 2015/16 £2.0m in contributions were paid to Prudential and at the year end the capital value of all AVC's was £14.3m.

### *25. Policy Statements*

The Fund has a number of policy statements that are available on request from Colin Pratt, Investment Manager, Leicestershire County Council, County Hall, Glenfield, Leicester. LE3 8RB (telephone 0116 3057656, email colin.pratt@leics.gov.uk). They have not been reproduced within the Accounts as, in combination, they are sizeable and it is not considered that they would add any significant value to most users of the accounts. The Statements are:

**Statement of Investment Principles (SIPs)**
**Communications Policy Statement**
**Funding Strategy Statement (FSS)**

### *26. Compliance Statement*

***Income and other taxes***
The Fund has been able to gain either total or partial relief from local taxation on the Fund's investment income from eligible countries. The Fund is exempt from UK Capital Gains and Corporation tax.

***Self-investment***
There has been no material employer related investment in 2014/2015 or 2013/2014. There were occasions on which contributions were paid over by the employer later than the statutory date, and these instances are technically classed as self-investment. In no instance were the sums involved material, and neither were they outstanding for long periods.

***Calculation of transfer values***
There are no discretionary benefits included in the calculation of transfer values.

***Pension Increase***
All pension increases are made in accordance with the Pensions Increase (Review) Order 1997.

***Changes to LGPS***
All changes to LGPS are made via the issue of Statutory Instruments by Central Government.

## 28. *Pension Fund Accounts Reporting Requirement*

HYMANS ROBERTSON LLP

# Pension Fund Accounts Reporting Requirement

### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2015/16 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the Leicestershire County Council Pension Fund, which is in the remainder of this note.

### Present value of Promised Retirement Benefits

| Present value of Promised Retirement Benefits (£m) | Year ended 31 March 2016 | Year ended 31 March 2015 |
|---|---|---|
| Active members | 2,895 | 2,966 |
| Deferred pensioners | 845 | 960 |
| Pensioners | 1,415 | 1,566 |
| **Total** | **5,156** | **5,492** |

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

### Assumptions

The assumptions used are suitable for IAS19 purposes as required by the Code of Practice. They are given below. I estimate that the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £536m.

HYMANS ROBERTSON LLP

### Financial assumptions

My recommended financial assumptions are summarised below:

| Year ended | 31 March 2016 % p.a. | 31 March 2015 % p.a. |
|---|---|---|
| Inflation/pensions increase rate | 2.2% | 2.4% |
| Salary increase rate | 4.2% | 4.3% |
| Discount rate | 3.5% | 3.2% |

### Longevity assumptions

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

| Average future life expectancies at age 65 (years) | Males | Females |
|---|---|---|
| Current pensioners | 22.2 | 24.3 |
| Future pensioners* | 24.2 | 26.6 |

* Future pensioners are assumed to be aged 45 at the most recent formal valuation as at 31 March 2013.

Please note that the assumptions are identical to last year's IAS26 disclosure for the Fund.

### Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

### Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

| Change in assumptions for the year ended 31 March 2016 | Approximate % increase to liabilities | Approximate monetary amount (£m) |
|---|---|---|
| 0.5% decrease in discount rate | 11% | 577 |
| 1 year increase in member life expectancy | 3% | 155 |
| 0.5% increase in salary increase rate | 4% | 205 |
| 0.5% increase in pensions increase rate | 7% | 361 |

### Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2016 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Anne Cranston

Anne Cranston AFA
For and on behalf of Hymans Robertson LLP
29 April 2016

# Statement of Responsibilities for Leicestershire County Council Pension Fund

### *THE AUTHORITY'S RESPONSIBILITIES*

The Authority is required to:

- Make arrangements for the proper administration of the financial affairs of its Pension Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Finance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts for the year.

The Director of Finance is responsible for the preparation of the Authority's Pension Fund Statement of Accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Local Authority Code.

The Director of Finances has also;

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

I certify that the above responsibilities have been complied with and the Statement of Accounts herewith presents a true and fair view of the financial position of the Leicestershire County Council Pension Fund as at 31 March 2016 and its income and expenditure for the year ended the same date.

**C TAMBINI**
**DIRECTOR OF FINANCE**
**27th SEPTEMBER 2016**

# Audit Opinion

<to follow>

# Annual Governance Statement (AGS) 2015/16

## 1. INTRODUCTION

Leicestershire County Council (the Council) is responsible for ensuring that its business is conducted in accordance with prevailing legislation, regulation, government guidance and that proper standards of stewardship, conduct, probity and professional competence are set and adhered to by all those representing and working for and with the Council. This ensures that the services provided to the people of Leicestershire are properly administered and delivered economically, efficiently and effectively. In discharging this responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs.

## 2. WHAT IS GOVERNANCE?

Corporate Governance is defined as how organisations ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. The Council's governance framework comprises the systems and processes, cultures and values by which the Council is directed and controlled. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The Council has a Code of Corporate Governance (the Code), which is consistent with the six core principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government.* The Accounts and Audit (England) Regulations 2015, require the Council to prepare and publish an Annual Governance Statement (AGS).

## 3. WHAT THE AGS TELLS YOU

The AGS provides a summarised account of how our management arrangements are set up to meet the principles of good governance set out in our Code and how we obtain assurance that these are both effective and appropriate. It is written to provide the reader with a clear, simple assessment of how the governance framework has operated over the past financial year and to identify any improvements made, and any weaknesses or gaps in our current arrangements that require addressing. The main aim of the AGS is to provide the reader with confidence that the Council has an effective system of internal control that manages risks to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

## 4. HOW THIS STATEMENT HAS BEEN PREPARED

There is a statutory requirement in England, for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and overall corporate governance arrangements. This review requires the sources of assurance, which the Council relies on, to be brought together and reviewed – from both a departmental and corporate view.

To ensure this AGS presents an accurate picture of governance arrangements for the whole Council, each Director was required to complete a 'self-assessment', which provided details of the measures in place within their department to ensure compliance (or otherwise) with the Council's Code of Corporate Governance.

The departmental self-assessment contained a set of compliance statements under each core principle, which required a corresponding score of 1, 2 or 3 based on the criteria below:

| Score | Definition | Description | Evidence (all inclusive) |
|---|---|---|---|
| 1 | Good  | Compliance against the majority of the areas of the benchmark is good, although there may be minor weaknesses with a limited impact on the ability to achieve departmental and Council objectives. Strategic, reputational and/or financial risks are minor and performance is generally on track. | • Many elements of good practice to a high standard and high quality;<br>• Coverage of this 'area of control' is extended to most/all services areas within the department |
| 2 | Some weaknesses/ areas for improvement  | There are some weaknesses against areas of the benchmark and the department may not deliver some of its own and the Council objectives unless these are addressed. The management of strategic, reputational and/or financial risks is inconsistent and performance is variable across the department. | • Some elements of good practice to a high standard and high quality;<br>• Coverage of this 'area of control' is only extended to certain service areas, with omissions in others;<br>• Proposal/Plans are in place to address perceived shortfalls |
| 3 | Key weaknesses/ many areas for improvement  | Compliance against many/all areas of the benchmark is weak and therefore delivery of departmental and Council objectives is under threat. There are many strategic, reputational and/or financial risks and performance is off track. | • Few elements of good practice to a high standard and high quality;<br>• Coverage of this expectation is omitted amongst most areas;<br>• Proposal/Plans to address perceived shortfalls are in early stages of development |

The application of a more quantitative approach to assessing compliance against the Code will allow the Corporate Management Team, Members and the public at large to obtain necessary assurance that the Council operates within an adequate internal control environment, thus complying with the six core principles and best practice. In addition to the above, senior officers assessed arrangements for managing issues that apply across all departments. Whilst the self- assessments identified many sources of assurance and were transparent in reporting areas for improvement the tables below only include the key sources of assurance and key areas for improvement.

| **PRINCIPLE A**<br>**Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area** | |
|---|---|
| **How we meet this Principle** | **Conclusions** |
| • We set out the overall Council vision in the Council's Strategic Plan (to 2018) incorporating the Medium Term Financial Strategy and Transformation Programme which are supported by specific departmental service/business plans and strategies<br><br>• Our Communities Strategy underpins working with the voluntary and community sector.<br><br>• The Commissioning and Procurement Strategy was put into operation and an Annual Report published setting out achievements in the first year and future actions.<br><br>• We publish our plans and our performance in the Annual Report and Statement of Accounts<br><br>• We communicate with, and publish results of our consultations with resident's, service users and other stakeholders and take account of feedback to review outcomes so they reflect progress and wider changes<br><br>• We have various channels to raise formal complaints and procedures that inform systematic service improvement. Performance against complaints is reported to the Scrutiny Commission and Corporate Governance Committee.<br><br>• Departmental Management Teams and Cabinet Lead Members receive regular reports on the status of performance indicators and have a process in place to address poor performance<br><br>• Regular communication is in place so that all staff are kept informed of key operational, departmental and corporate issues. | **Average Score: 1.4**<br><br><br><br>**The level of compliance is generally good and has improved as a result of developments during the year in Business Intelligence, which are expected to continue through 2016-17. The development of an Outcomes Framework and corporate activity to improve contract management will further improve compliance.** |

| **PRINCIPLE B**<br>**Members and officers working together to achieve a common purpose with clearly defined functions and roles** | |
|---|---|
| **How we meet this Principle** | **Conclusions** |
| • We adhere to a Constitution that clearly defines the Council's political structure, roles and responsibilities of the Executive, Committees, Members and Officers and the rules under which they operate<br><br>• Overview & Scrutiny support the work of the Council by: reviewing and scrutinising decisions; considering aspects of performance; assisting in research, policy review and development; and promoting collaborative working.<br><br>• We comply with the CIPFA Statements on the Role of the Chief Financial Officer and the Role of the Head of Internal Audit<br><br>• There is an Internal Audit Charter which sets out the purpose, authority and responsibility for the internal audit function and clearly defines Members and officers' roles, responsibilities and relationships<br><br>• Our Employment Committee is responsible for determining the terms and conditions on which staff hold office, including remuneration, disciplinary and grievance procedures and for making effective arrangements to ensure compliance with employment legislation and where necessary employment codes of practice<br><br>• We have developed protocols to ensure effective formal communication between members and officers by providing regular reports on progress and performance in relation to their respective committee and functions; and informal briefings on key topics<br><br>• We continue to communicate with stakeholders on future plans and proposals<br><br>• We have a list of eight priority partnerships that will be the primary | **Average Score: 1.6**<br><br>**The level of compliance is reasonable however improvements are required in relation to Partnership working. The new Combined Authority and any subsequent devolution deals will however necessitate a review of existing partnership arrangements.** |

| | |
|---|---|
| focus for the Council's partnership work. | |

| **PRINCIPLE C**<br>**Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour** | |
|---|---|
| **How we meet this Principle** | **Conclusions** |
| • We have an established Code of Conduct for Members, with training provided for any new Members. During the year, guidance was provided by the Monitoring Officer regarding the operation of the Code of Conduct where members represent more than one public body (i.e. "dual hatted" members):<br><br>• We maintain records of, and publish Members' Register of Interests on our website<br><br>• The Corporate Governance Committee supports and promotes the maintenance of high standards of conduct by Members and has agreed criteria for assessing complaints against Members, which is published on our website.<br><br>• The Employee's Code of Conduct is available on the Council's website. It is also available on the Council's intranet along with the relevant supporting documents.<br><br>• Each department maintains both a Register of Interests and a Register of Gifts and Hospitality and arrangements are in place so that staff are aware of, understand and comply with the need to report these situations<br><br>• We revised our Anti-Fraud & Corruption Policy Statement and Strategy and implemented new policies and procedures to mitigate the risks of bribery and corruption and money-laundering in order to conform with requirements of the CIPFA Code of Practice – 'Managing the Risk of Fraud and Corruption' (2014).<br><br>• During the year the Council has undertaken an assessment of its level of | **Average Score: 1.1**<br><br><br><br>**The level of compliance is good with no key improvements being required.** |

| | |
|---|---|
| compliance with the CIPFA Code of Practice – Managing the Risk of Fraud & Corruption, using the Assessment Tool developed by the CIPFA Counter Fraud Centre. The outcome of Leicestershire's assessment was positive<br><br>• We have new arrangements in place to enable staff to raise issues of concern and report wrongdoing. | |

| **<u>PRINCIPLE D</u><br>Taking informed and transparent decisions which are subject to effective scrutiny and managing risk** | |
|---|---|
| **How we meet this Principle** | **Conclusions** |
| • We publish all Committee agendas, meeting papers and minutes on our website<br><br>• We promote transparency by transmitting and archiving live webcasts of County Council, Cabinet, Scrutiny and Development Control, Police and Crime Panel and Regulatory Board meetings<br><br>• Scrutiny Commissioners produce and publish a report on the activities of Overview and Scrutiny over the year<br><br>• Corporate Governance Committee actively engages and conducts detailed scrutiny of the Corporate Risk Register and emerging risks. The Committee also noted the content of the revised Risk Management Policy and Strategy before its approval by Cabinet.<br><br>• Departmental Management Teams take full ownership of risks within their area and agree mitigating actions<br><br>• The adequacy and effectiveness of our internal control environment is tested throughout the year as a result of the approval and implementation of a risk based Internal Audit Annual Plan and by undertaking audits.<br><br>• We participate in a range of external audits, inspections and accreditations to ensure we remain accountable for the | **Average Score: 1.2**<br><br><br><br>**The level of compliance is good with no key improvements being required.** |

| | |
|---|---|
| quality of services we deliver as well to support continuous improvement of these services | |

| **PRINCIPLE E**<br>**Developing the capacity and capability of members and officers to be effective** | |
|---|---|
| **How we meet this Principle** | **Conclusions** |
| • We continue to provide opportunities to elected councillors in accordance with our agreed Member Learning & Development Strategy.<br><br>• Compulsory training is provided to relevant members on Planning and Regulatory Matters and on Pensions<br><br>• We provide regular briefings to members on the key issues and challenges facing the Council<br><br>• Our Learning & Development priorities are based upon having the knowledge, skills and expertise to meet our current and future service priorities<br><br>• Learning & Development plans are informed by the: MTFS; Strategic Vision and Imperatives; Departmental key aims; Service area plans; and individual Performance and Development Reviews (PDR)<br><br>• A ‘golden thread’ approach ensures that all staff understand and can make the links from their own team and individual objectives through to the departments and Council’s overarching priorities<br><br>• Induction training is provided for all new staff appropriate to their role and responsibilities, with access to on-going Learning & Development activities to enhance skills<br><br>• An established competency framework that yields behaviours to support the direction of the Authority, with all middle and senior managers completing a ’Leading for High Performance’ programme | **Average Score: 1.5**<br><br><br><br>**The level of compliance is generally good. Improvements are planned in a number of areas for 2016-17, including induction training for managers, the PDR process being reviewed and a new approach to workforce planning being developed.** |

<table>
<tr><th colspan="2"><u>PRINCIPLE F</u><br>Engaging with local people and other stakeholders to ensure robust public accountability</th></tr>
<tr><th>How we meet this Principle</th><th>Conclusions</th></tr>
<tr><td>
<ul>
<li>We publish a detailed Annual Performance Report on progress against the Strategic Plan</li>
<li>Significant consultation with residents has been carried out during 15/16 with regards to key service priorities for Library Services, Children and Family Services, Public Health and Adult Social Care and proposals for a Combined Authority.</li>
<li>Enhanced arrangements have been put in place to support managers in communications, consultation and engagement.</li>
<li>We published our policy and guidance for applicants wishing to make use of the Community Right to Challenge to express an interest in running local authority services.</li>
<li>Our communication strategy is based on an audience-led approach which has allowed us to better target residents who use or need our services.</li>
<li>We published our Council Tax leaflet on the LCC website.</li>
<li>Reputation trackers have shown consistent improvement with those who feel informed and satisfaction increasing. More people think the council offers value for money and more than 80% trust the council.</li>
<li>The Council will continue to use social media to reach a growing number of residents and stakeholders. Year-on-year usage of social media has increased</li>
<li>We have robust Freedom of Information practices in place which enable us to meet our obligations and publish our responses to requests</li>
</ul>
</td><td>
Average Score: 1.4<br>
<br>
The level of compliance is generally good and improvements in consulting and engaging have been made through the Commissioning Strategy. As the Strategy is further embedded, this is expected to improve further.
</td></tr>
</table>

| | |
|---|---|
| • We report against the mandatory requirements of the Local Government Transparency Code (2014) and the Openness of Local Government Bodies Regulations 2014 | |

In order to assist the Head of Internal Audit Service (HoIAS) annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment (see 5 below), sample checking of the corporate and departments' (AGS) self-assessments and supporting evidence was conducted. Additionally, two Cabinet Lead Members were interviewed and they confirmed that the processes in place to inform and update them on the key risks and issues within their specific portfolio were satisfactory. Finally, eighteen staff were randomly interviewed and responses showed that the majority of employees have sound knowledge of most of the areas tested. Where a weaker area was apparent, targeted internal audit work has been planned for 2016-17.

## 5. REVIEW OF EFFECTIVENESS

The CIPFA/SOLACE Governance Framework details typical systems and processes that an authority can adopt to ensure it has an effective system of internal control. Using this guidance, the County Council can provide assurance that it has effective governance arrangements.

*The Control Environment of Leicestershire County Council*

The Council's Constitution includes Standing Financial Instructions, Contract Procedure Rules and Schemes of Delegation to Chief Officers. These translate into key operational internal controls such as: control of access to systems, offices and assets; segregation of duties; reconciliation of records and accounts; decisions and transactions authorised by nominated officers; and production of suitable financial and operational management information. These controls demonstrate governance structures in place throughout the Council

**Internal Audit Service**

Leicestershire County Council Internal Audit Service (LCCIAS) should conform to the Public Sector Internal Audit Standards 2013 (the PSIAS). An Internal Audit Charter mandating the purpose, authority and responsibility of the internal audit activity at the Council was approved by Corporate Governance Committee in November 2014. The Charter allows the Head of Internal Audit Service (HoIAS) to also be responsible for the administration and development of, and reporting on, the Council's risk management framework. Whilst this does present a potential impairment to independence and objectivity, the HoIAS arranges for any assurance engagement to be overseen by someone outside of the internal audit activity.

The HoIAS conducted a further self-assessment of LCCIAS' conformance to the PSIAS. The self-assessment identified that current practices generally sufficiently conform to the PSIAS. Whilst, a few specific areas have been identified where action is needed these are not significant deviations to the PSIAS. Whilst there has been movement towards full conformance, for the time being, the HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS.

In order to meet a PSIAS requirement to form an opinion on the overall adequacy and effectiveness of the Council's control environment i.e. the framework of governance, risk management and control, the HoIAS constructs an annual risk based plan of audits. Given the overall improvements in risk management at the Council, the plan is primarily based on the contents of corporate and department risk registers to ensure current and emerging risks are adequately covered. Parts of the plan relate to audits of the key financial systems that are used by the External Auditor in their audit of the financial accounts. A contingency is retained for unforeseen risks, special projects and investigations.

Audit reports often contain recommendations for improvements. The number, type and importance of recommendations affects how the auditor reaches an opinion on the level of assurance that can be given that controls are both suitably designed and are being consistently applied, and that material risks will likely not arise. The combined sum of individual audit opinions and other assurances gained throughout the year (e.g. involvement in governance groups, attendance at Committees, evaluations of other assurance providers), facilitate the HoIAS to form the annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk management and control framework (i.e. the control environment).

The HoIAS presents an annual report to the Corporate Governance Committee in May. The annual report incorporates the annual internal audit opinion; a summary of the work that supports the opinion; and a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme. The HoIAS Sub-Opinions for 2015/16 are: -

<u>Governance</u> – Nothing of such significance, adverse nature or character has come to the HoIAS attention. As such reasonable assurance is given that the Council's governance arrangements are robust.

<u>Risk management</u> - Management has agreed to implement audit recommendations, which further mitigates risk. Therefore reasonable assurance is given that risk is managed.

<u>Financial and ICT Control</u> – Reasonable assurance can be given that the County Council's core financial practices remain strong. However, in 2015-16 there were areas of weakness in the control environment, most noticeably in Adults & Communities Department. Whilst the Director of Finance has taken action to ensure significant improvements, in respect of A&C only limited assurance can be given that internal controls operated effectively.

**<u>Internal Audit Service for East Midlands Shared Service (EMSS)</u>**

EMSS is constituted under Joint Committee arrangements, to process payroll/HR and accounts payable and accounts receivable transactions for Leicestershire County Council and Nottingham City Council. The internal audit of EMMS is provided by Nottingham City Council.

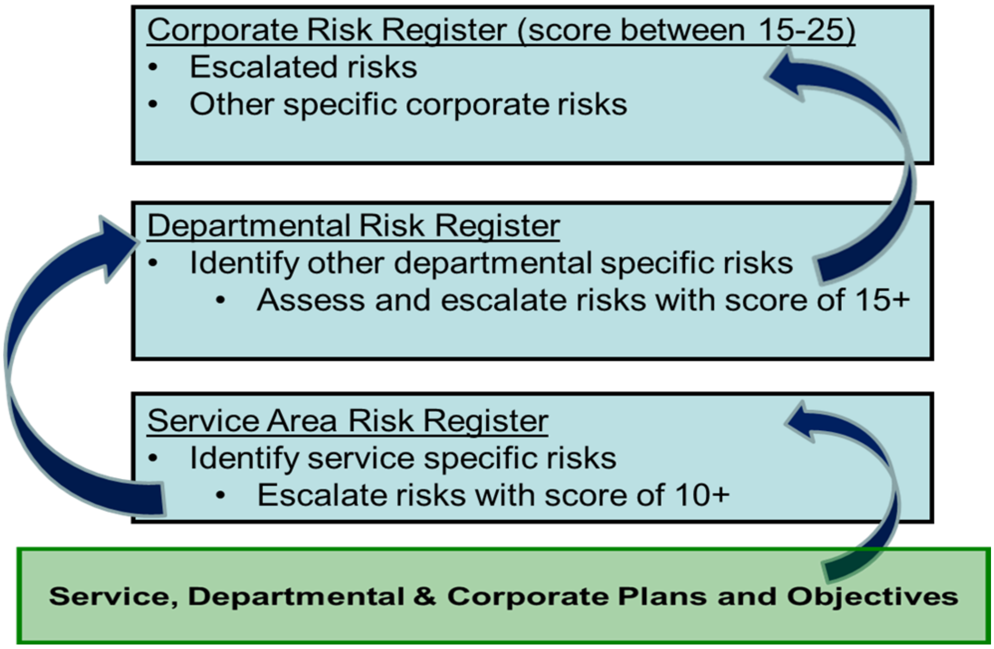
On the basis of audit work undertaken during the 2015-16 financial year, covering financial systems, risk and governance, the Head of Internal Audit (HoIA) at Nottingham City Council concluded that a “significant” level of assurance could be given that internal control systems are operating effectively within EMSS. In reaching this conclusion the HoIA acknowledged that once again there had been a demonstrable improvement in the governance processes and that no significant issues had been discovered. In addition it was worth noting that some of the issues raised did not apply to Leicestershire County Council.

## <u>Risk Management</u>

The Council's Code of Corporate Governance sets out a requirement to ensure that an effective risk management system is in place. Risk management is about identifying and managing risks effectively, helping to improve performance and aid bold decision making relating to the development of services and the transformation of the wider organisation. The Council's Risk Management Policy and Strategy provide the framework within which these risks can be managed:

The Policy and Strategy were reviewed, revised and approved by Cabinet in February 2016.The Council's risk management maturity was re-confirmed as between levels 3 "Working" and 4 "Embedded and Working"; it was concluded that whilst further development is necessary in some of the core areas, by and large, a robust framework underpinning risk management exists within the Council.

The framework for managing and escalating risks is as follows: -




## Corporate Governance Committee

The Corporate Governance Committee is responsible for promoting and maintaining high standards of corporate governance within the Council and receives reports and presentations that deal with issues that are paramount to good governance.

During 2015/16 the Committee has provided assurance that: an adequate risk management framework is in place; the Council's performance is properly monitored; and that there is proper oversight of the financial reporting processes. The Committee receives regular reports on: progress of internal audit work; treasury management; Regulation of Investigatory Powers Act (RIPA); anti-fraud initiatives; and extended risk management information on business continuity and insurance. The table below provides summary information of other key business considered by this Committee to support the above.

| June 2015 | September 2015 | November 2015 | February 2016 |
|---|---|---|---|
| External Review of the MTFS | External Audit of the 2014/15 Statement of Accounts and the Annual Governance Statement | Annual Audit Letter 2014/2015 | External Audit Plan 2015/16 |
| Draft Annual Governance Statement 2014/15 | Ombudsman Annual Review 2014/15 and Corporate Complaint Handling | New external auditors KPMG – introduction to the Committee | Treasury Management Strategy Statement and Annual Investment Strategy 2016/17 |
| Annual Treasury Management Report 2014/15 | Annual Report on the Operation of Members' Code of Conduct 2014/15 | Clinical Governance Update | Quarterly Treasury Management Update |
| Quarterly Risk Management Update | Quarterly Treasury Management Update | Quarterly Treasury Management Report | Quarterly Risk Management Update |
| Internal Audit Service Quarterly Progress Report | Quarterly Risk Management Update | Proposed Changes to the Contract Procedure Rules | Internal Audit Service Quarterly Progress Report |
| Internal Audit Annual Report 2014/15 | Internal Audit Service Quarterly Progress Report | Proposed Changes to the Standard Financial Instructions | |
| Internal Audit Service Audit Plan for 2015/16 | | Quarterly Risk Management Update | |
| | | Internal Audit Service Quarterly Progress Report | |
| | | Regulation of Investigatory Powers Act 2000 (RIPA) – Annual Report | |

## External Audit

The Council's external auditors KPMG present the findings from their planned audit work to those charged with governance.

Key conclusions from work undertaken during 2015/16 can provide the public with assurance that the Council has:

- Applied a number of prudent assumptions in setting its MTFS, which will help manage financial risks, with robust programme management arrangements in place to ensure that saving targets will be achieved;

- Demonstrated value for money on a number of key areas when compared with other County Councils and has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources;

- Incorporated significant Member involvement in the development of the MTFS and has set aside an appropriate level of earmarked reserves and contingency to manage future cost pressures;

- No significant audit or accounting issues and no material deficiencies in internal control and that the Annual Statement of Accounts presented a true and fair view, in accordance with the relevant codes and regulation.

## The Role of the Chief Financial Officer (CFO)

The Director of Finance (Corporate Resources Department) undertakes the role of the Chief Financial Officer (CFO) for the Council. The CFO is a key member of the Corporate Management Team and is able to bring influence to bear on all material business decisions, ensuring that immediate and long term implications, opportunities and risks, are fully considered and in alignment with the MTFS and other corporate strategies. The CFO is aware of, and committed to, the five key principles that underpin the role of the CFO, and has completed an assurance statement that provides evidence against core activities which strengthen governance and financial management across the Council.

## The Role of the Head of Internal Audit

The Council's Internal Audit Service arrangements conform to the governance requirements and core responsibilities of the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010). The Head of Internal Audit Service (HoIAS) works with key members of the Corporate Management Team to give advice and promote good governance throughout the organisation. The HoIAS leads and directs the Internal Audit Service so that it makes a full contribution to and meets the needs of the Authority and external stakeholders, escalating any concerns and giving assurance on the County Council's control environment. The HoIAS has completed an assurance statement, providing evidence against core activities and responsibilities which strengthen governance, risk management and internal control across the Authority.

**The Role of the Monitoring Officer**

The Monitoring Officer has responsibility for:

- ensuring that decisions taken comply with all necessary statutory requirements and are lawful. Where in the opinion of the Monitoring Officer any decision or proposal is likely to be unlawful and lead to maladministration, he/she shall advise the Council and/or Executive accordingly,

- ensuring that decisions taken are in accordance with the Council's budget and it's Policy Framework

- providing advice on the scope of powers and authority to take decisions

In discharging this role the Monitoring Officer is supported by officers within the Legal and Democratic Services Teams.

## 6. GOVERNANCE ISSUES AND AREAS FOR IMPROVEMENT

**Deprivation of Liberty Standards**

A Supreme Court Case Ruling during 2015-16 led to a large increase in service users entitled to assessment and review. The risk to the Council is that legal requirements would not be met within the timescales. Action has been taken to significantly increase budgets for 2016/17 and later years and also provide additional resource in year to reduce the current waiting list.

## 7. FUTURE CHALLENGES

Significant challenges faced by the County Council such as the escalation of funding reductions, progressing the transformation programme and driving further Health and Social Care integration are detailed within the Corporate Risk Register, which is regularly presented to the Corporate Management Team and Corporate Governance Committee. Managing these risks adequately will be an integral part of both strategic and operational planning; and the day to day running, monitoring and maintaining of the County Council.

New challenges continue to emerge in particular:

- The agreement of governance arrangements for the Combined Authority and any future Devolution Deals.

- The Independent Inquiry into Child Sexual Abuse (Goddard Inquiry). The challenges facing the Council will be in providing the information required, managing the press and public reaction in terms of the Council's reputation and the possible impact of any increase in referrals to social care.

- Addressing emerging future spending pressures such as unaccompanied asylum seekers and increasing numbers of pupils with special education needs.

## 8. CERTIFICATION

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Corporate Governance Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

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

Furthermore, having considered all the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, we are satisfied that the Council has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

| | |
|---|---|
| John Sinnott<br>Chief Executive | Nicholas Rushton<br>Leader of the Council |

# Glossary of Terms

### ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements.

### AMORTISED COST

The amortised cost of a financial asset or financial liability is:

- the amount at which the asset or liability is measured at initial recognition (usually "cost")
- *minus* any repayments of principal,
- *minus* any reduction for impairment or uncollectibility, and
- *plus or minus* the cumulative amortisation of the difference between that initial amount and the maturity amount.

### CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty within 24 hours. Cash equivalents are investments of less than 3 months from acquisition that are readily convertible to known amounts of cash with insignificant risk of a change in value.

### CAPITAL RECEIPTS

Income from the sale of capital assets. Such income may only be used to repay loan debt or to finance new capital expenditure.

### CAPITAL RESERVE

An internal reserve of the Council which is used to generate monies for financing capital expenditure thus avoiding the need to borrow externally.

### COLLECTION FUND

The fund administered by each authority collecting Council Tax (district councils in shire areas). The Authority precepts on these funds to finance its net expenditure after taking into account other sources of income, e.g. Government Grants, National Non-Domestic Rate income and charges for services.

### COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

A summary of the resources generated and consumed by the authority in the year. Includes details of how the movement in net worth in the Balance Sheet is identified to the Comprehensive Income and Expenditure Statement surplus/ deficit and to other unrealised gains and losses.

### CORPORATE & DEMOCRATIC CORE

Consists of costs of democratic representation and corporate management.

### CREDITORS

Amounts owed by the Authority for work done, goods received or services rendered but for which payment has not been made by the end of the financial year.

### DEBTORS

Amounts due to the Authority but unpaid at the end of the financial year.

### *DEFERRED CAPITAL RECEIPTS*

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

### *FAIR VALUE*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transactiona the market date. Fair value is referred to as the exit price.

### *INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)*

A statement of common accounting practice, devised by the International Accounting Standards Board, which is applicable to the majority of large organisations, both public and private sector.

### *FORMULA GRANT*

A Government Grant allocated by the following Government formula:

- Relative Needs
- Relative Resources
- Central Allocation
- Floor Damping

### *GENERAL COUNTY FUND*

The main revenue fund of the Authority. Precept income, National Non-Domestic Rate income and government grants are paid into the fund, from which the cost of providing services is met.

### *IMPAIRMENT*

A loss in the value of a fixed asset, arising from physical damage such as a major fire or a significant reduction in market value. In addition a reduction in value where there is insufficient unrealised gains in the revaluation reserve for that asset.

### *INFRASTRUCTURE*

The network of roads, bridges, sewers, lighting etc.

### *INTANGIBLE ASSET*

Non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the Authority through custody or legal rights (e.g. purchased software licences).

### *LEASING*

A method of financing the acquisition of assets, notably equipment, vehicles, plant, etc. There are two forms of lease:

a) A finance lease involves payment by the lessee (the user) of the full cost of the asset together with a return on the finance provided by the lessor, usually payable over the anticipated life of the asset.

b) An operating lease involves the payment of a rental by a lessee for a period, which is normally less than the useful economic life of the asset.

***LONG TERM BORROWING***
Loans raised to finance capital spending which have still to be repaid.

***MINIMUM REVENUE PROVSION***
The Authority has a duty to set aside a prudent amount of money as a provision for financing the debt incurred to undertake capital expenditure.

***MOVEMENT IN RESERVES STATEMENT***
A reconciliation showing the movement in the year on the different reserves held by the Authority, analysed into 'usable' reserves (i.e. those that can be used to fund expenditure or reduce local taxation, and other reserves. It also shows how the balance of resources generated/ consumed in the year links in with statutory requirements for raising council tax.

***NON CURRENT ASSETS***
An asset which is not easily convertible to cash or not expected to become cash within the next year. Examples include fixed assets, leasehold improvements, long term investments and long term debtors.

***NON DISTRIBUTED COSTS***
Costs which comprise pension scheme past service costs, settlements and curtailments.

***NON-OPERATIONAL ASSETS***
Assets held by the Authority but not directly used for the provision of services, e.g. assets surplus to requirements, commercial properties, and assets under construction.

***PRECEPTS***
The income which the Authority requires from the collection funds of the district councils.

***PROVISION***
An amount set aside for any liabilities or losses of uncertain timing or amount that have been incurred.

***PUBLIC WORKS LOAN BOARD (PWLB)***
A government body from which local authorities may raise long term loans, usually at advantageous interest rates.

***REMUNERATION***
All sums paid to an employee, including expenses, allowances, and redundancy payments chargeable to UK income tax, and the monetary value of any other benefits received other than in cash.

***REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE***
Capital expenditure incurred not resulting in an asset to the authority e.g. Grants to village halls.

***REVENUE SUPPORT GRANT (RSG)***
Grant paid by the Government in respect of general local authority expenditure.

***RECHARGE***
The transfer of costs from one service account to another.

***REVENUE FUNDING OF CAPITAL***
The financing of capital expenditure by a direct contribution from revenue.

***REVENUE***
Expenditure that the Authority incurs on the day to day running costs of its services including salaries and wages, running expenses of premises and vehicles as well as the annual payment of capital charges. The expenditure is financed from charges for services, government grants and income from Council Tax and National Non-Domestic Rates.

***SERVICE LEVEL AGREEMENT (SLA)***
An agreement between users and providers of support services which specifies the service to be provided and the charge to be made.

***SHORT TERM ACCUMULATING COMPENSATED ABSENCES ADJUSTMENT ACCOUNT***
Represents the reversal of the accrued charge to the Comprehensive Income and Expenditure Statement for outstanding annual leave, flexi leave and time off in lieu carried forward by employees required by regulations.

***SPECIFIC GRANTS***
Grants paid by the Government for a particular service, e.g. School Standards Grant, Supporting People.

***TERMINATION BENEFITS***
Employee benefits payable as a result of either: (a) the Authority's decision to terminate an employee's employment before the normal retirement date; or (b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

***TRUST FUNDS***
Funds administered by the Authority for such purposes as charities, prizes and specific projects.

***USABLE RESERVE***
An amount set aside for purposes falling outside the definition of a provision that an Authority can apply to its provision of services, either by incurring expenses or undertaking capital investment.

***UNUSABLE RESERVE***
An amount set aside for purposes falling outside the definition of a provision that an Authority is not able to utilise to provide services. These include reserves that hold unrealised gains and losses as well as adjustment accounts which hold income and expenditure recognised statutorily against the general fund balance on a different basis from that expected by accounting standards as adopted by the code.

KPMG

# External Audit Report to those charged with governance (ISA 260) 2015/16



**Leicestershire County Council**

**Leicestershire Local Government Pension Fund**

—

September 2016

# Contents

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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 John Cornett, 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.

# 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 both the Authority and its pension fund; 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 Leicestershire County Council ('the Authority') in relation to the Authority's 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); 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 February 2016, set out the four stages of our financial statements audit process.

Planning | Control Evaluation | Substantive Procedures | Completion

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

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 substantially completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work.

## Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 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.

## Acknowledgements

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

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# Section two: Headlines

# Headlines

This table summarises the headline messages for the Authority and the Fund. 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. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007 and subsequent addendum.<br>We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016. |
| **Audit adjustments** | One academy lease was surrendered during 2015/16, therefore the related assets (buildings) should have been brought back onto the Authority's balance sheet. However, the Finance team were not informed of the lease surrender resulting in the incorrect accounting treatment of capital expenditure (£2.8m) relating to this asset during the year. Due to the complexity of the adjustments required to correct this matter a number of statements and notes to the accounts have had to be adjusted. We have undertaken a review of all the adjustments made in relation to this matter and are satisfied they have been correctly adjusted.<br>We identified that for the Accounts Receivable ledger, balances transactions were manually categorised into their respective pay groups, thereby increasing the risk of transactions being incorrectly categorised. Our testing found that Short term debtors of £500k relating to central government were incorrectly included in "other entities" debtors. The financial statements have been amended for this transaction.<br>Our audit also identified a small number of minor presentational misstatements in the financial statements.<br>These have been discussed with management and the financial statements are amended for all identified audit adjustments and presentational misstatements. |
| **Key financial statements audit risks** | We identified the following key financial statements audit risks in our 2015/16 External Audit Plan issued in February 2016.<br>— Asset Valuations and the implementation of IFRS 13<br>The Authority's in-house valuer undertook valuations during the 2015/16 financial year. We have undertaken our assessment of the valuer, including reviewing the terms of engagement to ensure compliance with the Authority's accounting policies. We obtained the instructions provided to the valuer and considered the source of the information, undertaking appropriate testing to ensure both its completeness and accuracy. Our work also reviewed the appropriateness of any amendments made by management to the information received from the valuer before being incorporated into the financial statements. Our work did not identify any significant issues nor material audit differences.<br>We have worked with officers throughout the year to discuss these key risk(s) and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas. |

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# Headlines (cont.)

This table summarises the headline messages for the Authority and the Fund. 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.**

| | |
|---|---|
| **Accounts production and audit process** | We received complete draft 2015/16 accounts by 30 June 2016, in accordance with the requirements of the Accounts and Audit Regulations. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code.<br>The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.<br>We will debrief with the Technical Accounting Team (TAT) Strategic finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particularly we would like to thank Authority Officers who were available throughout the audit visit to answer our queries. |
| **VFM conclusion and risk areas** | We identified Delivery of Saving Plans as a VFM risk from our risk assessment work which we reported to you in our Audit Plan in February 2016.<br>We have worked with officers throughout the year to discuss this VFM risk 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 area.<br>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.<br>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016. |

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# Headlines (cont.)

**This table summarises the headline messages for the Authority and the Fund. 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.**

| | |
|---|---|
| **Completion** | At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:<br>— Final KPMG Director and Manager review<br>— Clearing any residual queries with officers as part of our completion procedures<br>— The final casting and consistency checks on the amended financial statements<br>— Our normal audit closure and reporting procedures<br><br>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 Section 151 Officer. 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.<br><br>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. |

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# Section three: Financial Statements

# Proposed opinion and audit differences

**We have proposed an adjustment for PPE.**

**We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2016.**

**The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007 and subsequent addendum.**

**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 Authority.

**Audit differences**

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £8.5 million. Audit differences below £0.425 million are not considered significant.

One academy lease was surrendered during 2015/16, therefore the related assets (buildings) should have been brought back onto the Authority's balance sheet. However, the Finance team were not informed of the lease surrender resulting in the incorrect accounting treatment of capital expenditure (£2.8m) relating to this asset during the year. Due to the complexity of the adjustments required to correct this matter a number of statements and notes to the accounts have had to be adjusted. We have undertaken a review of all the adjustments made in relation to this matter and are satisfied they have been correctly adjusted.

We identified that for the Accounts Receivable ledger, balances transactions were manually categorised into their respective pay groups, thereby increasing the risk of transactions being incorrectly categorised. Our testing found that Short term debtors of £500k relating to central government were incorrectly included in "other entities" debtors. The financial statements have been amended for this transaction.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code').These have been discussed with management and the financial statements are amended for all identified audit adjustments.

**Disclosures requirements:**

The Property Plant and Equipment (PPE) Note (note15) does not fully compile with code as it only gives net book values (NBV) and not gross book values (GBV). This is due to the Authority's Fixed Asset Register (FAR) not being able to calculate the GBVs. A new FAR is planned for 2016/17 which will resolve the issue in the 2016/17 Financial Statements.

**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.

We have made a small number of comments in respect of its format and content which the Authority has agreed to amend where significant.

**Annual Performance report**

We have reviewed the Authority's annual report and can confirm it is consistent with the financial information contained in the audited financial statements.

# Proposed opinion and audit differences (cont.)

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

**We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.**

**The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.**

## Pension fund audit

Our audit of the Fund did not identify any material misstatements.

For the audit of the Fund we used a materiality level of £31 million. Audit differences below £1.55 million are not considered significant.

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Corporate Governance Committee on 23 September 2016.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Fund will be addressing these where significant.

## Pension fund annual report

We have reviewed the 2015/16 Leicestershire County Council Pension Fund and confirmed that:

— It complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; and

— The financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Leicestershire County Council Pension Fund at the same time as our opinion on the 2015/16 Statement of Accounts.

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# 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, presented to you in February 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

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

**Asset Valuation and IFRS 13**

— Risk

Due to the inherent risk associated with the estimation of assets and the implementation of IFRS 13 which require surplus assets to be measured at fair value for 2015/16, we considered this to be a significant risk.

— Findings

We undertook the following procedures over this significant risk:

- We reviewed the terms of engagement with the valuer to ensure compliance with the Authority's accounting policies.
- We reviewed the revaluation basis and considered its appropriateness with the CIPFA Code of Practice and the underlying IFRS accounting standards.
- We undertook appropriate work to understand the basis upon which any impairments had been calculated.

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

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# 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.

Below we set out the outcome of our audit procedures and assessment on these risk areas.

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### 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 is unlikely to be an incentive to fraudulently recognise revenue.

Nothing has arisen from our audit work to lead to us altering our decision and as such this is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

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### 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.

Some members of the TAT Strategic finance team are able to both create and post journal entries. There is separation between journal creation and journal postings in other finance teams and whilst access to the system is limited by user access rights, there is no formal review process in place prior to or after posting journals to the general ledger. There is a risk that if journal entries are not independently reviewed, posting could contain material errors. We have identified through our work over non-pay expenditure that Oracle has the

# Other areas of focus

**In our External Audit Plan 2015/16, presented to you in February 2016, we identified 1 area of audit focus. This is not considered a significant risk but an area 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 the area of audit focus.**

capability for authorisation processes to be set up. We have made a recommendation that a risk based review process should be in place to review journals in future. There are no other matters arising from this work that we need to bring to your attention.

**MRP Policy**

— Area

The Authority is considering updating its MRP policy. This risk affects only the Authority.

— Findings

We reviewed compliance with the existing policy and confirmed that the existing policy was followed for 2015/16. There are no matters arising from this work that we need to bring to your attention. The Authority is considering updating its MRP policy during 2016/17 and we will review any changes made during our 2016/17 audit.

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# 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:


| Assessment of subjective areas | | | | |
|---|---|---|---|---|
| **Asset/liability class** | **15/16** | **14/15** | **Balance (£m)** | **KPMG comment** |
| **Provisions** | 3 | 3 | £8.1 million<br>*(PY: £9million)* | There have been no significant changes in the approaches to determining the estimate. The change in the level of the provision on the previous year is not material. |
| **Property, Plant and Equipment** | 3 | 3 | £834.0 million<br>*(PY: £794.3million)* | We have reviewed the arrangements and discussed the approach with managers. The Authority has not made any significant changes to its approach to asset lives or its valuation arrangements. |
| **Pensions Liability** | 3 | 3 | £523.7 million<br>*(PY: £731.0 million)* | There have been no significant changes in the approaches to determining the estimate. The Authority has again relied on an independent expert actuarial valuation for its estimates. We did not identify any concerns regarding the Authority's approach or the assumptions used. |

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# Accounts production and audit process

**The Authority has good processes in place for the production of the accounts. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.**

### 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 continues to maintain a good financial reporting process and produce statements of accounts to a good standard.<br>We consider that accounting practices are appropriate. |
| **Completeness of draft accounts** | We received a complete set of draft accounts by 30 June 2016.<br>We have worked with officers throughout the year to identify and discuss potential issues that could affect the closedown process, and the Authority's response to these issues. |
| **Quality of supporting working papers** | Our *Accounts Audit Protocol*, which we issued in February 2016 and discussed with Head of Service - Finance, set out our working paper requirements for the audit.<br>The quality of working papers provided met the standards specified in our *Accounts Audit Protocol*. |
| **Response to audit queries** | The officers resolved all audit queries in a timely manner. |

| Element | Commentary |
|---|---|
| **Pension Fund Audit** | The audit of the Fund was completed in June/July 2016. There are no specific matters to bring to your attention relating to this. |

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# Accounts production and audit process (cont.)

**The Authority has good processes in place for the production of the accounts. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.**

### Findings in respect of the control environment for key financial systems

Journal entries can be created and posted by the same individual. While access to the system is limited by user access rights, there is no formal review process in place prior to or after posting journals to the general ledger. There is a risk that if journal entries are not independently reviewed, posting could contain material errors. We have identified through our work over non-pay expenditure that Oracle has the capability for authorisation processes to be set up.

Due to a delay by HM Treasury to issue the Whole of Government Accounts (WGA) submission pack, by two months, the Council failed to meet the revised deadline of 12 August 2016 for the unaudited version of the WGA submission to DCLG; this was due to pre planned staff holidays. The return was submitted on 23 August.

Mapping of some accounts and Service Reporting Code of Practice (SeRCOP) is currently a manual process but with specific identifiable coding, this would make the process more efficient and would assist with WGA

We have made recommendations to address these areas.

### Prior year recommendations

As part of our audit we would specifically followed up the Authority's progress in addressing any recommendations raised by the previous auditor in last years ISA 260. No recommendations were made therefore no follow up has been required.

### Narrative statement

This is a new statement this year, replacing the Explanatory Foreword. We are pleased to report that the draft statement includes all the required disclosures.

We have discussed with officers whether the presentation can be improved by varying the types of graphics used. Management will consider this for future years.

### Post Balance Sheet Events

We have asked the Authority to add a note referring to the impact on Brexit as a note in the accounts and in the Narrative Statement as a matter impacting on the future. We have supplied proforma wording for the Authority.

# 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.**

## 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 Leicestershire County Council and the Leicestershire Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Leicestershire County Council and the Leicestershire Pension Fund, 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 four 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 Section 151 Officer for presentation to the Corporate Governance 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.

# 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.**

## 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'.

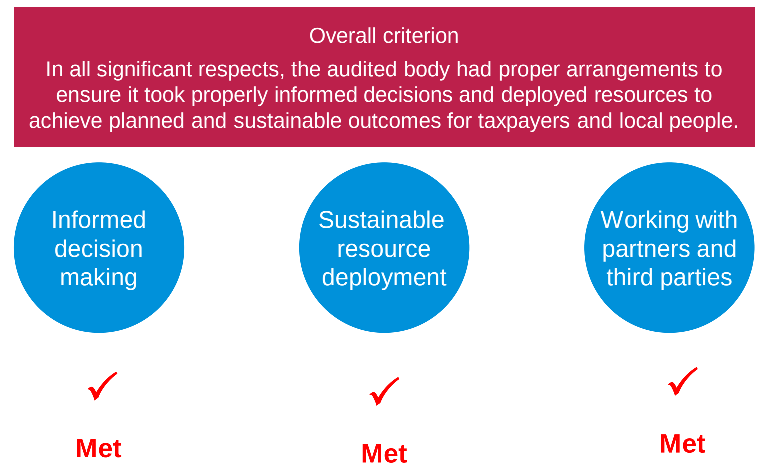
This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to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

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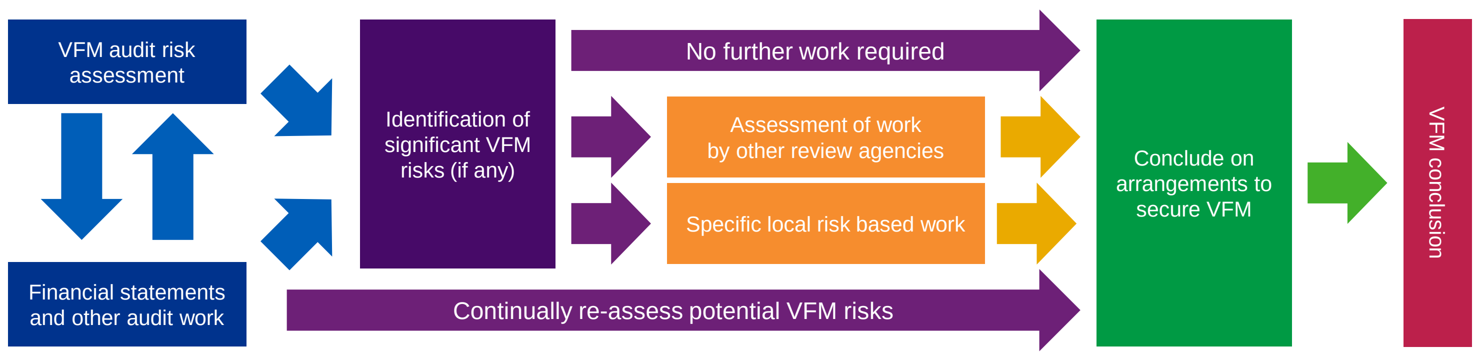

# Specific VFM Risks

**We identified a single specific VFM risk.**

**We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area 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

On the next page we set out the findings in respect of the area where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work. This work is now complete and we also report on this on the next page.

# Specific VFM Risks (cont.)

**We identified a single specific VFM risk. Relating to financial resilience and capacity.**

**We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.**

| Key VFM risk | Risk description and link to VFM conclusion | Assessment |
|---|---|---|
| Delivery of Saving Plans | The Authority's budgets over recent years have delivered planned savings, but further strong financial challenges lie ahead. The Authority forecasts predict that over the forthcoming years, additional savings will need to be found as it faces further expenditure pressures and a continued reduction in resources.<br><br>The Authority is currently refreshing its Medium Term Financial Strategy for 2016/17 –2019/20 to take account of the impact of reduced government funding. The refreshed plan requires efficiencies of £78 million over the four year period, and the need to deliver £27 million of savings in 2016/17. The Authority has currently identified £59 million of these savings.<br><br>The Authority faces continued budget pressure arising from the demand on adult social care (£23 million) and children's social care (£9 million). | We have considered the Authority's arrangements for managing its annual budget and the 2015/16 outturn. For 2015/16 the Authority's outturn was contained within the approved budget and as forecast throughout the year. However, in the current economic climate of continued financial pressures there are still significant challenges that lie ahead both for the Authority and the sector as a whole.<br><br>We have also reviewed the Authority's savings programme focussing on the delivery of savings plans and the arrangements the Authority has in place to identifying further savings in future years. Our view is that the Authority has robust plans in place to address the financial challenge but we recognise that difficult decisions still remain to be taken to address the predicted budget shortfall, £0.6m in 2017/18 rising to £19.5m in 2019/20.<br><br>The scale of the financial challenge remains significant and the ability of the Authority to continue to deliver a balanced budget whilst still providing its statutory services while Council Tax increases are restricted and grant funding is reducing.<br><br>Over the last five years the Authority has delivered savings of £100m, with savings of £58.8m forecast to be made over the next four years (2016/20), £26.7m of these are planned to be delivered in 2016/17. Given the savings already delivered this is a challenging task and the pressure to achieve further savings is unlikely to diminish going forward.<br><br>Some of the key areas for planned savings over the next four years included Children and Family Services (£8.8m), Adult Social Care (£16.7m), Highways and Transport (£13.4m) and Corporate Resources (£8.4m). In addition, the Authority faces significant demand and cost pressures over the period of the MTFS with significant growth of £41.3m required to meet these pressures, £23m of which is required in 2016/17. Main areas of growth within the MTFS include Adult Social Care (£23m) and Children and Family Services (£8.9m).<br><br>The Authority's ability to deliver its MTFS and planned savings will require focus, discipline and innovation, and whilst the Authority's Transformation Programme will play a key role in supporting the delivery there will need to |

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# Specific VFM Risks (cont.)

**We identified a single specific VFM risk. Relating to financial resilience and capacity.**

**We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.**

| Key VFM risk | Risk description and link to VFM conclusion | Assessment |
|---|---|---|
| Delivery of Saving Plans | | be continued proactive management of the risks associated with planned savings. Such risks include:<br>• public acceptance of some savings, for example, the rural bus subsidy;<br>• the need to tightly control demand led budgets in Children's and Adults' Social care; and<br>• the potential technical difficulty of some projects such as the "digital council".<br><br>The Authority continues to have a strong level of reserves. As at 31 March 2016 the General County Fund £40.4m (£27.2m 14/15) and Earmarked Revenues Reserves £90.6m (£103.3m 14/15). Given the uncertainties and risks that lie ahead for the sector as a whole, and the individual pressures and challenges the Authority faces in the short to medium term, the level of reserves are appropriate for the size of the organisation. However, the Authority should continue to review its reserves requirements on a periodic basis and the level of reserves will continue to be an element within our Value for Money work for future years. |

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# Appendices

Appendix one: Key issues and recommendations

Appendix two: Audit differences

Appendix three: Independence and objectivity

# 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.**

| 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 | **Journals:**<br>Some members of the TAT Strategic finance team are able to both create and post journal entries. There is separation between journal creation and journal postings in other finance teams and whilst access to the system is limited by user access rights, there is no formal review process in place prior to or after posting journals to the general ledger. There is a risk that if journal entries are not independently reviewed, posting could contain material errors. We have identified through our work over non-pay expenditure that Oracle has the capability for authorisation processes to be set up.<br><br>**Recommendation**: The Council should consider implementing a formal review process for journals either through automated authorisation processes built into Oracle as a recurring control or a monthly management review of journal entries based on a materiality level. | **Head of Finance**<br>The County Council has started a review of journal authorisation and the potential use of Oracle to automate this process.<br>Due Date: 31 December 2016 for completion of assessment with implementation plan to follow the assessment. |

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# 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.**

| No. | Risk | Issue and recommendation | Management response/responsible officer/due date |
|---|---|---|---|
| 2 | 3 | **WGA submission:**<br><br>Due to a delay by HM Treasury to issue the Whole of Government Accounts (WGA) submission pack, by two months, the Council failed to meet the revised deadline of 12 August 2016 for the unaudited version of the WGA submission to DCLG; this was due to pre planned staff holidays. The return was submitted on 23 August.<br><br>**Recommendation**:<br><br>The Council should consider including the WGA preparation and submission within the detailed closedown timetable for 2016/17 to avoid missing the deadline and ensure that flexibility is built into the timetable in order for staff to complete the return despite other commitments. | **Head of Finance**<br><br>Due to delays by the Treasury in releasing the final WGA submission pack, by two months, the revised deadline was not possible for the 2015/16 return. DCLG were advised of the delay and the completed pack was submitted on 23 August 2016, due to pre planned staff holidays.<br><br>This will be reviewed as part of planning the closedown timetable for 2016/17, but we are dependent on third parties providing the information timely.<br><br>Due date: 31 December 2016 |
| 3 | 3 | Mapping of certain accounts balances and SERCOP is currently a manual process but with specific identifiable coding, this would make the process more efficient and would even assist with WGA. | **Head of Finance**<br><br>Certain balances require manual apportionment within the final statements, such as short term and long term creditor balances at the balance sheet date.<br><br>This will be reviewed to see where improvements can be made and liaise with KPMG for examples / experience of other clients.<br><br>Due date: 31 December 2016 |

# 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.**

| No. | Risk | Issue and recommendation | Management response/responsible officer/due date |
|---|---|---|---|
| 4 | 2 | **Academy Lease Surrender:**<br>One academy lease was surrendered during 2015/16, therefore the related assets (buildings) should have been brought back onto the Authority's balance sheet. However, the Finance team were not informed of the lease surrender resulting in the incorrect accounting treatment of capital expenditure (£2.8m) relating to this asset during the year.<br><br>**Recommendation:**<br>The Council should consider implementing a formal process for the Authority's Legal and/or Property departments to inform the Finance team of any Academy lease surrenders as they occur during the year. | **Head of Finance**<br>Agreed. This will be implemented for 2016/17<br>Due date: 31 December 2016 |

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# Follow up of prior year recommendations

**No recommendation made in the previous auditors *ISA 260 Report 2014/15*.**

This appendix summarises the progress made to implement the recommendations identified in the previous auditors ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

No recommendations made in the previous auditors ISA 260 2014/15 therefore no follow up required.

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# Audit differences

**This appendix sets out the audit differences.**

**The financial statements have been amended for all of the errors identified through the audit process.**

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Corporate Governance Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### Uncorrected audit differences

We confirm that there are no uncorrected misstatements, other than those that we believe are clearly trivial.

### Corrected audit differences

#### Material misstatements

We confirm that there are no material misstatements.

#### Non material audit differences

Our audit identified a small number of non material errors in the financial statements, including the surrender of an Academy lease and short term debtors. These have been discussed with management and the financial statements have been amended for all of them.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code').These have been discussed with management and the financial statements are amended for all identified audit adjustments.

### Disclosures requirements:

The Property Plant and Equipment Note (note15) does not fully compile with the Cipfa Code of Practice as it only gives net book values (NBV) and not gross book values (GBV). This is due to the Authority's Fixed Asset Register (FAR) not being able to calculate the GBVs. A new FAR is planned for 2016/17 which will resolve the issue in the 2016/17 Financial Statements.

### Pension Fund

Our audit did not identify any material misstatements. There were a number of minor presentational matters, which Officers have amended to ensure that the accounts are compliant with the Code.

# Materiality and reporting of audit differences

**For 2015/16 our materiality is £8.5 million for the Authority's accounts. For the Pension Fund it is £31 million.**

**We have reported all audit differences over £0.425 million for the Authority's accounts and £1.55 million for the Pension Fund, to the Corporate Governance Committee.**

## Materiality

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

— Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

— Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

— Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

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

Materiality for the Authority's accounts was set at £8.5 million which equates to around 1% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

## Reporting to the Corporate Governance 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 Corporate Governance 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 £0.425 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 Corporate Governance Committee to assist it in fulfilling its governance responsibilities.

## Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £31 million which is approximately 1% percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £1.55 million for 2015/16.

# 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 Corporate Governance 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.



KPMG

# 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.**

## 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 Leicestershire County Council and the Leicestershire Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Leicestershire County Council and the Leicestershire Pension Fund, 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 Independence

**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.**

## Audit Fees

Our scale fee for the audit was £76,950 plus VAT, and £27,637 plus VAT for the Pension Fund. This scale fee was in line with that highlighted within our External Audit Plan 2015/16 reported to the Corporate Governance Committee in February 2016.

## Non-audit services

We have not carried out any non-audit work at the Authority.

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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.



KPMG LLP is multi-disciplinary practice authorised and regulated by the Solicitors Regulation Authority. For full details of our professional regulation please refer to 'Regulatory Information' at www.kpmg.com/uk

Leicestershire County Council

Mr J Cornett
KPMG LLP
Chartered Accountants
St Nicholas House
Park Row
Nottingham
NG1 6FQ

Date: 23 September 2016
My Ref:
Your Ref:
Contact: Chris Tambini
Phone: 0116 305 6199
Fax:
Email: Chris.Tambini@leics.gov.uk

Dear Mr Cornett

This representation letter is provided in connection with your audit of the financial statements of Leicestershire County 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 Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, 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;

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.

**Information provided**

4. 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.

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

6. 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.

7. 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.

8. 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.

9. 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*.

10. 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.

11. 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.

This letter was tabled and agreed at the meeting of the Corporate Governance Committee on 23 September 2016.

Yours sincerely,

[Chair of the Corporate Governance Committee]

[Chief Financial Officer]

## Appendix to the Representation Letter of Leicestershire County 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; and
- 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.

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.

**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.

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