



Meeting: **Constitution Committee**

Date/Time: **Friday, 27 July 2018 at 10.30 am**

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

Contact: **Mrs J. Twomey (Tel: 0116 305 6462)**

Email: **joanne.twomey@leics.gov.uk**

Membership

Mr. N. J. Rushton CC (Chairman)

Dr. T. Eynon CC Mr. J. B. Rhodes CC
Mr. S. J. Galton CC Mr. R. J. Shepherd CC

AGENDA

<u>Item</u>	<u>Report by</u>
1. Election of Deputy Chairman.	
2. Minutes of the meeting held on 12 June 2018.	(Pages 3 - 6)
3. Question Time.	
4. Questions asked under Standing Order 7(3) and 7(5).	
5. To advise of any other items which the Chairman has decided to take as urgent.	
6. Declarations of interest.	
7. Statement of Accounts and Pension Fund Accounts 2017/18.	(Pages 7 - 200)
8. Any other items which the Chairman has decided to take as urgent.	



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Minutes of a meeting of the Constitution Committee held at County Hall, Glenfield on Tuesday, 12 June 2018.

PRESENT

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

Dr. T. Eynon CC
Mr. S. J. Galton CC

Mr. I. D. Ould CC
Mr. R. J. Shepherd CC

Apologies

Mr. J. B. Rhodes CC

84. 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 2019.

Mr N. J. Rushton CC – in the Chair

85. Minutes of the previous meeting.

The minutes of the meeting held on 29 September 2017 were taken as read, confirmed and signed.

86. Question Time.

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

87. Questions asked by Members.

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

88. Urgent Items.

There were no urgent items for consideration.

89. 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.

90. Review and Revision of the Constitution - County Council Meetings held in March

The Committee considered a report of the Chief Executive which set out proposals to change the Constitution's Meeting Procedure Rules (Standing Orders) to dispense with the County Council meeting held in March and to allow ordinary business to be transacted at the Budget meeting in February and the Annual meeting in May. A copy of the report is filed with these minutes.

Mr. S. J. Galton CC raised concerns about the reduced opportunity for opposition groups to hold the Leader and his Cabinet to account. In addition to allowing business to be transacted at the Budget and Annual Council meetings he requested that consideration be given to allowing greater participation by back bench members to raise issues for debate. The Leader requested that the Chief Executive look at the processes for debate permitted by other Authorities at Council meetings.

RESOLVED:

- (a) That the County Council be recommended to approve the proposed changes to the Constitution's Meeting Procedure Rules (Standing Orders) as set out in the report.
- (b) That the Chief Executive be requested to look at the processes for debate permitted by other Authorities at Council meetings.

3.30 - 3.40 pm
12 June 2018

CHAIRMAN



CONSTITUTION COMMITTEE – 27th JULY 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

STATEMENT OF ACCOUNTS & PENSION FUND ACCOUNTS 2017/18

PURPOSE

1. The purpose of this report is to:
 - a) present the 2017/18 Statement of Accounts, attached as Appendix A to this report, for approval;
 - b) inform the Committee of the main areas of the accounts;
 - c) report the key findings from the external audit of the accounts;
 - d) provide an update on the external auditor appointment for 2018/19.

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 July (previously September) following the end of the financial year.
3. A copy of the external auditor's, KPMG LLP, report on the accounts is attached as Appendix B. The letter of representation is attached as Appendix C.
4. The Corporate Governance Committee will consider the auditor's report at its meeting on 25 July 2018. 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. The auditor anticipates issuing an unqualified audit opinion.
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. 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. The 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. Overall, usable reserves which comprise the General Fund, Earmarked Funds and Capital Funds, have increased as at 31 March 2018 from £156m to £163m.
10. The General Fund totalled £24m as at 31 March 2018 (£26m 31 March 2017) and contains delegated funding for schools, carry forwards and the uncommitted balance of the County Council. Details of the Fund are shown in note 11 to the accounts. The decrease at year end is mainly due to a reduction in the level of school balances resulting from academy conversions.
11. The uncommitted balance is held 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 Council's policy is to hold a balance in the range of 4% to 5% of net budgeted expenditure (excluding schools). The balance at 31 March 2018 was unchanged at £14.8m and represents 4.1% of the net budgeted expenditure for 2018/19.
12. Earmarked funds, excluding dedicated schools grant, totalled £125m as at 31 March 2018 (£109m 31 March 2017). The main reason for the increase was due to resources being set aside to fund the increased demand for capital investment. This is primarily projects that reduce liabilities and ongoing costs, generates income or investment in County Council services. The investments approved at year end include highways maintenance and the future developments fund. The timing of these projects meant that funding was carried forward in earmarked funds. Details of the funds can be found in note 12 to the accounts.
13. The significant earmarked funds held are:
 - Capital Financing £61m. This fund is used to hold MTFs revenue contributions to fund capital expenditure in later years of the approved 4 year capital programme. It also holds funding set aside for the future developments programme to fund projects that achieve ongoing revenue savings and support necessary service investment. Holding this fund is an essential part of the Council's approach to avoiding incurring additional debt where possible. The amount shown in the accounts to the accounts is after £20m 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 £12m. 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.
 - Transformation £12m. 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 12 to the accounts is after the £3m balance from the temporary investment of £8.4m in the Local Authority Mortgage scheme - £5.4m was repaid during 2017/18). The remaining £3m is due to be repaid in 2018/19. The investment was advanced to Lloyds Bank temporarily funded from the overall balance of earmarked funds.
14. The required level of earmarked funds is kept under review during the year. Formal assessments are undertaken and reported during the autumn, in February as part of the Medium Term Financial Strategy (MTFS) and also at year end.

Comprehensive Income and Expenditure Statement (CIES)

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 align with the main reporting areas of the County Council. However the CIES cannot be directly compared to the outturn position reported to the Cabinet 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.
17. The CIES shows a deficit on the Provision of Services for 2017/18 of £6.1m compared with a surplus of £4.3m in 2016/17). The main reason for the change is the reduction in Central Government Grants, mainly the Revenue Support Grant which reduced by £17m in 2017/18 – see note 38 to the accounts.
18. The Narrative Statement, on page 6 to the accounts, explains the net outturn position in the context of the County Council's budget. In summary, this shows a gross underspend of £0.3m (after movements to earmarked funds for additional investment approved at year end) which has been set aside to fund carry forwards to 2018/19.

Balance Sheet

19. The Balance Sheet shows the value of the assets and liabilities recognised by the County Council as at the balance sheet date. As at 31 March 2018 net assets of the County Council were £312m (31 March 2017, £213m). The principal reason for the change is an increase in the value of Property, Plant and Equipment of £63m, due to capital improvements during the year (from the capital programme) and also a reduction in the net pension liability of £25m.

20. As at the balance sheet date, the net deficit on the pension fund had improved to £589m compared with £614m at the same time last year. This is mainly due to an increase in the value of the pension fund assets of £41m (County Council's notional share). This improvement is offset by an increase in estimated liabilities of £16m over the same period. Details are shown in note 16 to the accounts.
21. 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.
22. The Balance Sheet also shows total provisions of £7.3m (£7.8m 31 March 2017). Provisions are held to fund liabilities of uncertain timing or amount and are shown in greater detail in note 27 to the accounts. The main provision held is for Insurance, £4m, and represents the estimated value of outstanding unsettled claims at 31 March 2018.
23. Cash and Cash Equivalents have increased from £23m to £34m as at 31 March 2018. Cash equivalents are highly liquid investments that mature within 3 months or less from the date of acquisition, shown in note 24 to the accounts. This is mostly due to an increase in investments held short term as at the balance sheet date of £9m due to an anticipated Bank of England Base Rate rise.
24. The balance sheet also shows the amount of short and long term investments, which total £227m as at the year end. This includes £20m investment in Pooled Property Funds shown under long term investments, and £7m investment in Private Debt. Both investments are made in order to achieve a higher rate of return than deposits with banking institutions.
25. During 2017/18 the County Council set aside £10.8m as part of the minimum revenue provision (MRP) for the repayment of debt. This has the effect of reducing the capital financing requirement (CFR) and the ongoing MRP charge to the revenue budget, the financing costs of capital totals c.£23m each year. The CFR is shown in note 41 to the accounts and stands at £257m at the year end. The CFR is a measure of capital expenditure incurred historically that has yet to be financed. Actual debt as at the balance sheet was £265m. The difference between the CFR and actual debt is a temporary overborrowed position of £8m and is pending opportunities for the early repayment of debt where the savings outweigh the redemption penalties. This position is kept under regular review by as part of the Councils Treasury Management Strategy.

Annual Governance Statement

26. 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 has been approved by the Corporate Governance Committee.

Pension Fund Accounts

27. The Statement of Accounts includes the Pension Fund accounts for the Local Government Pension Scheme administered by the County Council.
28. The last available triennial actuarial valuation of the pension fund showed that as at 31 March 2016 the fund's assets covered approximately 76% of the liabilities accrued up to that date. This funding level was an increase on the 72% position reported in the 2013 valuation. The deficit puts 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.
29. 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 2017/18 the average employer rate was 22.7% of pay (21.8% 2016/17).
30. The overall net assets of the fund increased during the year from £3.9bn at the start to £4.1bn as at 31 March 2018. This was due to an increase in the value of the investments, shown in note 9 to the Pension Fund Accounts.

Key Findings of the External Auditor

31. The external auditor has reviewed the financial statements and has concluded that there are no material accounting issues. The external auditor anticipates issuing an unqualified opinion for:
 - a) the Statement of Accounts and Pension Fund Accounts – give a true and fair view of the financial position of the authority as at 31 March 2018, and have been prepared in accordance with proper accounting practice, the CIPFA Code of practice on Local Authority Accounting in the United Kingdom 2017/18.
 - b) Value for Money arrangements – putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of those arrangements.
32. Arising from the audit the auditor has raised five recommendations:
 - No periodic user access responsibility review (to the financial system, Oracle). The last significant review was 3 years ago. There had been some initial delays in developing suitable reports, but these have now been resolved and a full review will be undertaken during 2018.
 - Timely revoking of system (Oracle) access for leavers. From a full review of all assignment (employment) end dates, there were 20 cases where access to the system was still available after the end dates. Subsequent testing showed no inappropriate actions had been undertaken. A review of the process will be undertaken to ensure that end dates are updated on a timely basis.

- Payroll BACS authorisation. For one payroll in December 2017 the file was prepared and approved by the same person. A shortage of staff at the time resulted in the team manager certifying the preparation and approval of the file to meet the payroll deadlines. This will be reviewed to ensure adequate cover is available in future.
 - Pension Fund – Investment Asset Reconciliation. The quarterly Net Asset Valuations (NAV) reports from fund managers are reconciled for each quarter but are not input into the general ledger until year end. The council has agreed that best practice is to input them quarterly and this will be implemented during 2018.
 - Pension Fund – Bank Reconciliation. The pension fund bank account is reconciled on a daily basis and reviewed by a senior officer at the end of each month, but there is no formal monthly reconciliation statement signed by the preparer and the approver. This will be implemented in 2018.
33. There was one correction to the accounts identified during the audit. This related to the valuation of assets, £1.4m, and was due to a difference between the valuation system and the fixed asset register. The issue has been identified and changes will be made for next year. The correction, to reduce the value of land and buildings, has been made in the 2017/18 accounts.

EXTERNAL AUDITOR APPOINTMENTS FOR 2018/19 – update

34. The audit of the 2017/18 accounts is the final year of KPMG LLP as the external auditor of the County Council.
35. The Local Audit and Accountability Act 2014 introduced changes allowing Local Authorities to appoint their own external auditor from 2018/19. Following reports to the Corporate Governance Committee and the County Council in 2016, the County Council opted to join Public Sector Audit Appointments Limited (PSAA), the sector led body set up by the Local Government Association for the appointment of external auditors. Of 493 eligible local bodies, 484 opted into the PSAA scheme.
36. The PSAA have completed their procurement exercise and have awarded contracts, based on lots, to six auditing firms. Following a consultation period, Grant Thornton (LLP) was appointed as the new external auditor for the County Council and the Pension Fund. The contract will cover a five year period commencing with the audit of accounts for 2018/19. PSAA has an option to extend the contracts for a further two year period, to a total of seven years, if it chooses to do so.
37. As a result of the procurement exercise external audit fees will reduce from £105,000 per annum for the County Council and Pension Fund, to £80,000 per annum from 2018/19, a reduction of 24%.

RECOMMENDATION

38. The Committee is recommended to approve the Statement of Accounts for 2017/18.

BACKGROUND PAPERS

Provisional revenue and capital outturn, Cabinet - 22 May 2018

<http://politics.leics.gov.uk/documents/s137593/Cabinet%2022%20May%20-%20Prov%20Outturn%20v5.pdf>

Provisional revenue and capital outturn, Scrutiny Commission - 6 June 2018.

<http://politics.leics.gov.uk/documents/s137872/Provisional%20Outturn%20Report.pdf>

CIRCULATION UNDER THE LOCAL ISSUES ALERT PROCEDURE

None.

EQUAL OPPORTUNITIES IMPLICATIONS

None.

APPENDICES

Appendix A – Statement of Accounts 2017/18

Appendix B – External Auditors Report

Appendix C – Letter of Representation

OFFICERS TO CONTACT

Mr C Tambini, Director of Corporate Resources,
Corporate Resources Department,

☎0116 305 6199 E-mail Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director (Strategic Finance and Property),
Corporate Resources Department,

☎0116 305 7668 E-mail Declan.Keegan@leics.gov.uk

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Statement of Accounts, Annual Governance Statement and Pension Fund Accounts 2017/2018



Contents

	Page
Narrative Statement	4
<i>Primary Statements</i>	
Movement in Reserves Statement (MIRS)	12
Comprehensive Income and Expenditure Statement (CIES)	13
Balance Sheet	14
Cash Flow Statement	15
<i>Notes to the Primary Statements</i>	16-90
Statement of Responsibilities	91
Pension Fund Account	92
Net Assets Statements	95
Notes to the Accounts	95
Statement of Responsibilities for Leicestershire County Council Pension Fund	115
Audit Opinion	116
Annual Governance Statement	119
Glossary of Terms	133

Copies of the Statement of Accounts and Annual Governance Statement are available from the Technical Accounting Team, Corporate Resources Department, Leicestershire County Council, County Hall, Glenfield, Leicester, LE3 8RB.

Alternatively, the accounts can be viewed on the County Council's website by visiting:

<http://www.leicestershire.gov.uk/>

Introduction to the Statement of Accounts

Councillor Preface

Being the lowest funded County Council in the Country has brought many challenges but one which we have met with real determination.

The County Council is facing significant financial, demographic and service demand challenges. It needs to deliver savings of £50m (of which £13m remain unidentified) over the next four financial years (2018/19 to 2021/22), with £17.6m savings to be made in 2018/19. This is a challenging task especially given that savings of £178m have already been delivered over the last eight years. In addition, over the period of the Medium Term Financial Strategy, growth of £41.2m is required to meet demand and cost pressures with £14.3m required in 2018/19. Inflation pressures of around £34m are also forecast over the next 4 years.

We are on track to meet this challenge because of the forward planning and our excellent track record in delivering savings. Credit must be given to our excellent staff, who continue to work under tight budgetary controls yet still deliver high quality services.

With many pressures over the horizon including an ageing population I am confident that we have the right team in place to meet these challenges.

Mr. J.B. Rhodes

Cabinet Lead Member for Corporate Resources and Deputy Leader of the County Council



Foreword from the Director of Corporate Resources

The County Council continues to meet the challenges associated with our extremely difficult financial position. The County Council continues to deliver savings, generate Income, and modernise services.

The Council has also successfully completed a number of capital projects, without borrowing any money, including:

- £20m investment in LED street lighting
- £12m building a new Area Special School
- £12m investment in highways maintenance
- £26m investment in new assets to support economic development and generate income to help protect crucial services

The future will continue to be challenging, however with continued hard work and careful planning it is a future that we are prepared for.

I would also like to thank all our staff who have worked throughout the year to balance the Council's budget, deliver efficiency savings and provide value for money, in addition to closing the accounts promptly and to such a high standard.

Chris Tambini

Director of Corporate Resources



Narrative Statement

Organisational Overview and External Environment

The Council has consolidated its priority outcomes into the Strategic Plan and Outcomes Framework for 2018-22. The Plan guides service commissioning and delivery in order to secure maximum delivery against these outcomes.

Leicestershire remains the lowest funded county council in the country with greater risks as a result. The Council's financial position continues to be extremely challenging, with £178m saved since 2010 and a further £50m to save by 2021/22. The position is serious with major implications for the provision of services to the people of Leicestershire. Reductions in government funding are making it increasingly difficult to maintain good service delivery levels and target service improvements where required.

The current system does not share national resources fairly, and this view is shared by many others in local government. Last year the Council presented a new simplified funding model based on factors that drive demand for local services. It allocates money in a fair way, based on need, and narrows the gap between the highest and lowest funded councils.

Leicestershire as a Place

Leicestershire covers an area of 208,000 hectares, with a population of around 683,000 people. The population is growing, and is predicted to reach 784,000 by 2039, with particular growth among the over 65's. 82% of Leicestershire's area is classified as rural while 70% of the population live in our towns and urban areas.

Unemployment rates are consistently below national and regional levels. Manufacturing is the dominant industrial sector in the county, accounting for 14% of all employment, followed by Logistics and Distribution (13%), Professional, Scientific and Technical (11%) and Retail (9%). 94% of our residents tell us that they are satisfied with the county as a place to live, significantly higher than the equivalent national figure.

The Council plays an active role in place shaping and responding to local needs such as working with partners to agree a new Strategic Planning Framework, and working sub-regionally (with Leicester City and the Leicestershire district authorities) and regionally on economic and transport planning.

Leicestershire County Council

Leicestershire County Council is an upper tier of local government with 55 councillors who are elected every 4 years. The Council has 5,976 employees (excluding schools) organised into 6 departments:

- Children & Family Services
- Adults and Communities
- Environment and Transport
- Public Health
- Chief Executives
- Corporate Resources

Governance

The Council's Annual Governance Statement summarises the outcome of the Council's review of the Governance Framework that has been in place during 2017/18. The statement demonstrates that the Council has in place effective arrangements, but that it recognises the need to continuously review, adapt and develop its governance arrangements to meet the changing needs of the authority. There were no significant governance issues in 2017/18.

Primary Statements

Risks and Opportunities

A risk management strategy is in place to identify and evaluate risk. The Council's corporate risk register contains the most significant risks which the Council is managing. Separate risk registers are in place for key departmental and service risks.

Strategy & Resource Allocation

The Council has developed five strategic outcomes that are essential for good quality of life in Leicestershire. These set out aspirations for local people and places, describing the results we want people to see and experience in their daily lives:

- **Strong Economy** - Leicestershire's economy is growing and resilient so that people and businesses can fulfil their potential.
- **Wellbeing and Opportunity** - The people of Leicestershire have the opportunities and support they need to take control of their health and wellbeing.
- **Keeping People Safe** - People in Leicestershire are safe and protected from harm.
- **Great Communities** - Leicestershire communities are thriving and integrated places where people help and support each other and take pride in their local area.
- **Affordable and Quality Homes** - Leicestershire has a choice of quality homes that people can afford.

These key strategic outcomes form part of the Council's medium term financial planning process which covers a four year period and is refreshed annually.

Financial Performance

Revenue Budget

A summary of the net revenue outturn for 2017/18 is set out below:

2016/17				2017/18		
Budget	Outturn	Variance		Budget	Outturn	Variance
£m	£m	£m		£m	£m	£m
138.1	127.2	(10.9)	Adults & Communities	135.7	130.2	(5.5)
10.0	9.6	(0.4)	Chief Executives	10.4	9.7	(0.7)
61.1	59.9	(1.2)	Children & Family Services	61.7	65.6	3.9
36.6	35.5	(1.1)	Corporate Resources	33.1	32.7	(0.4)
72.4	70.6	(1.8)	Environment & Transport	67.2	66.1	(1.1)
(2.5)	(3.0)	(0.5)	Public Health	0.2	(0.7)	(0.9)
0.0	32.7	32.7	Approved additional commitments	0.0	10.1	10.1
(1.0)	(1.0)	0.0	Contribution from Earmarked Funds	0.0	0.0	0.0
15.2	0.0	(15.2)	Contingencies	2.8	(0.7)	(3.5)
30.6	27.8	(2.8)	Central Items	39.2	38.0	(1.2)
360.5	359.3	(1.2)		350.3	351.0	0.7
			Funded by:			
(58.5)	(58.6)	(0.1)	Business Rates	(60.8)	(61.8)	(1.0)
(13.8)	(13.8)	0.0	Carry forwards from previous year	(1.3)	(1.3)	0.0
(251.2)	(251.2)	0.0	Council Tax	(268.7)	(268.7)	0.0
(37.0)	(37.0)	0.0	Revenue Support Grant	(19.5)	(19.5)	0.0
(360.5)	(360.6)	(0.1)		(350.3)	(351.3)	(1.0)
0.0	(1.3)	(1.3)	NET OUTTURN	0.0	(0.3)	(0.3)
		1.3	Carry forwards to following year			0.3

The authority underspent its revenue budget by £0.3m which has been offset by carry forwards. The Authority has made significant progress in achieving the savings in the MTFs, but there is still a long way to go. The underspend to a large extent reflects the early achievement of efficiency savings. Price and service demand pressures have been

Primary Statements

largely contained in the year. Inflation and demographic pressures mean that this position will not be maintained beyond the short term.

Capital Budget

A summary of the capital outturn for 2017/18 is set out below:

2016/17			Capital	2017/18		
Budget	Outturn	Variance		Budget	Outturn	Variance
£m	£m	£m		£m	£m	£m
4.9	4.5	(0.4)	Adults & Communities	4.8	4.4	(0.4)
4.6	2.5	(2.1)	Chief Executives	4.8	3.8	(1.0)
30.0	33.1	3.1	Children & Family Services	26.4	20.6	(5.8)
14.5	9.9	(4.6)	Corporate Programme	21.0	28.4	7.4
5.0	4.3	(0.7)	Corporate Resources	5.0	3.6	(1.4)
44.3	44.1	(0.2)	Environment & Transport	32.6	32.9	0.3
0.3	0.3	(0.0)	Public Health	0.0	0.0	(0.0)
103.6	98.7	(4.9)		94.6	93.7	(0.9)

Overall there has been a net underspending of £0.9m compared with the updated budget. The net underspend will be carried forward to 2018/19 to fund schemes that were not completed in 2017/18.

Further detail of the budget outturn variances for revenue and capital can be found in the Cabinet report dated 22nd May 2018 available on the County Council's Website.

Operational Performance

The Council maintains a strong focus on performance management through its corporate performance management, commissioning and benchmarking arrangements. Performance management is well embedded through regular performance reporting across organisational governance arrangements.

The Council regularly monitors its performance position and areas for improvement through service benchmarking. Looking at published data for 2016/17, the Council has continued to improve its overall performance position to 6th of 27 two-tier county council areas, using a basket of 212 performance indicators spanning Council and partnership activity. In a separate exercise, iMPower Consulting analysed the productivity of English local authorities using published data for 2016/17, taking performance metrics and calculating overall outputs per pound invested. The Council was ranked top performer – reflecting the Council's good overall performance and also the fact Leicestershire is the lowest funded county and has to maintain rigorous cost and efficiency controls.

The Council's five strategic outcomes set out our aspirations for our people and places. The following tables highlight progress towards these outcomes. Where it is available, the tables indicate which comparative quartile Leicestershire's performance falls into based on the latest published national data, which in most cases is for the previous year. The 1st quartile is defined as performance that falls within the top 25% of relevant comparators. The 4th quartile is defined as performance that falls within the bottom 25% of relevant comparators. The Authority's Annual Delivery Report and Performance Compendium (to be published autumn 2018) will provide a more detailed account of performance during the year.

Strong Economy - Leicestershire's economy is growing and resilient so that people and businesses can fulfil their potential

Performance Indicators	Previous Result	Latest Result	Latest Quartile
Leicestershire has a highly skilled and employable workforce			
% achieving a level 2 qualification by the age of 19	85.6% (2015)	85.2% (2016)	3
% Unemployed	2.4% (2015/16)	3.6% (2016/17)	2
Leicestershire has the right infrastructure for sustainable growth			

Primary Statements

Performance Indicators	Previous Result	Latest Result	Latest Quartile
% of the classified road network where structural maintenance should be considered	2% (2015/16)	2% (2016/17)	1
Overall satisfaction with the condition of highways	40.0% (2016/17)	39.5% (2017)	1
Average vehicle speeds during the weekday morning peak on locally managed 'A' roads	32.3 (2014/15)	31.7 (2015/16)	2
Leicestershire is an attractive place where businesses are supported to flourish			
Gross Value Added (GVA) per head	£22,579 (2015)	£22,920 (2016)	2
% premises with access to high speed broadband	95% (2016/17)	96% (2017/18)	n/a

Wellbeing and Opportunity - The people of Leicestershire have the opportunities and support they need to take control of their health and wellbeing

Performance Indicators	Previous result	Latest Result	Latest Quartile
Every child gets the best start in life / children's health			
% of all childcare providers rated good or outstanding	86% (2015/16)	94.0% (2016/17)	3
% of eligible 2 year olds taking up free early education	67% (2016)	75% (2017)	2
Leicestershire has a healthy population with increased healthy life expectancy and reduced health inequalities			
% of physically active adults	66.5% (2015/16)	66.2% (2016/17)	2
% Smoking Prevalence in adults	17.4% (2015)	13.5% (2016)	2
Every child has access to good quality education			
% of schools rated Good or Outstanding	90.1% (2016/17)	88.7% (2017/18)	1
People are cared for at home, in their own community, whenever possible, and for as long as possible			
Permanent admissions to residential and nursing care homes of those aged 65+	632.7 (2016/17)	659.7 (2017/18)	3
% of people aged 65+ still at home 91 days after discharge from hospital into reablement / rehabilitation services	86.5% (2016/17)	86.1% (2017/18)	2

Keeping People Safe - People in Leicestershire are safe and protected from harm

Performance Indicators	Previous result	Latest Result	Latest Quartile
People at the most risk or in crisis, are protected and supported to keep them safe			
% child protection cases which were reviewed within required timescales	99.1% (2015/16)	100% (2016/17)	1
All children in Leicestershire are living in stable environments and have secure attachments			
% children in same placement for 2+ years or placed for adoption	65% (2015/16)	69.3% (2016/17)	3
% of care leavers aged 19, 20 and 21 in suitable accommodation	88.0% (2015/16)	90.0% (2016/17)	1
People in Leicestershire are safe in their daily lives			

Primary Statements

Performance Indicators	Previous result	Latest Result	Latest Quartile
Total crime rate (per 1,000 population)	51.14 (2016/17)	60.00 (2017/18)	2
Number of casualties on our roads	1,768 (2015/16)	1,705 (2016/17)	1
Number of people killed or seriously injured on our roads	242 (2015/16)	225 (2016/17)	1

Great Communities - Leicestershire communities are thriving and integrated places where people help and support each other and take pride in their local area

Performance Indicators	Previous result	Latest Result	Latest Quartile
People feel welcome and are included in their communities			
% of service users who reported that they had as much social contact as they would like	40.7% (2015/16)	46.2% (2016/17)	2
% of carers who reported that they had as much social contact as they would like	32.5% (2014/15)	31.4% (2016/17)	3
Communities participate in the design and delivery of initiatives and plans for the future			
% willing to work together with others on something to improve their neighbourhood	71.3% (2016/17)	77.3% (2017/18)	n/a
% stating that they were satisfied with their local area as a place to live	95.7% (2016/17)	95.2% (2017/18)	n/a
Cultural, historical and natural heritage is enjoyed and conserved			
Libraries total issues	1.48m (2016/17)	1.51m (2017/18)	4
Total household waste per household (kg)	1112 (2015/16)	1094 (2016/17)	4
% of household waste sent by local authorities for reuse, recycling, composting	49.6% (2015/16)	49.7% (2016/17)	2

Affordable and Quality Homes - Leicestershire has a choice of quality homes that people can afford

Performance Indicators	Previous result	Latest Result	Latest Quartile
Leicestershire has the right number and type of homes in the right places to meet needs and support economic growth			
Number of new dwellings completed – all	3,840 (2015/16)	3,660 (2016/17)	1

Outlook

The Authority's Medium Term Financial Strategy (MTFS) agreed in February 2018 is based on a council tax increase of 5.99% for 2018/19, including a 3% increase regarding the adult social care precept, followed by an annual increase of 2.99% in the following year and a 1.99% increase for the following two years. Government settlement funding will reduce by £10m per annum over the next two years, with the position thereafter likely to be announced as part of a comprehensive spending review in 2019/20. In 2016 the government projected a national budget surplus of £10bn for 2019/20. However in November 2017 this was revised to a £35bn deficit with the target of eliminating the deficit by the mid 2020's looking doubtful. This will have significant implications for the public sector as Local Government is the area that continues to face the largest reduction in funding. The MTFS therefore assumes a continuation of the £10m reduction p.a. in 2020/21 and 2021/22.

Primary Statements

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 £50m over the next four years of which £13m is unidentified.
- Service pressures resulting in an overspend. There are increasing pressures within Adults and Children's social care. In 2017/18 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 commissioning and service delivery. Savings of £37m have been identified over the MTFS with further savings under development to generate additional savings and bridge the £13m shortfall. Once business cases have been completed savings will be confirmed and included in a future MTFS.

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

Current Borrowing / Investments

The capital financing requirement (CFR) shown in note 41 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 £1,019m (2016/17 £945m). The CFR was £257m (2016/17 £268m) and actual debt was £265m (2016/17 £275m). The difference between the CFR and the actual debt is a temporary overborrowed position, pending the repayment of debt. During 2017/18 no new loans were raised (£0m 2016/17). Details of the loans held by the Authority are shown in note 46 to the financial statements. The level of capital borrowing is within the Authority's 2017/18 Prudential Indicators that inform the Authority whether its capital investment plans are affordable, prudent and sustainable.

Investments held by the Authority total £208m as at 31 March 2018 (£216m 31 March 2017). 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.

Academy Schools

During 2017/18 eighteen schools transferred to Academy Status resulting in the net book value of the schools, £8.9m 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 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 2018/19 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 was estimated to be £589m as at 31 March 2018 compared with £615m as at 31 March 2017. The position has improved slightly due to an increase in the discount rate used in the valuation. The discount rate increased from 2.6% to 2.7% in line with AA rated corporate bond yields. 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.

Cyber-Attacks

The County Council appreciates the risk from cyber-attacks. It has governance and monitoring in place and follows best practice to reduce risk, identify unusual activity and keeps its network and data secure.

Basis of Preparation and Contents of the Statement of Accounts

The Statement of Accounts sets out the Authority's income and expenditure for the year, and its financial positions as at 31 March 2018. It comprises primary statements, together with disclosure notes. The format and content of the financial statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which in turn is underpinned by International Financial Reporting Standards. The primary financial statements are:

- **Movement in Reserves Statement:**

This financial statement shows the movement during 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. This statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The net increase/ decrease line shows the statutory general fund balance movements in the year following those adjustments.

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

This financial statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. 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 both the Expenditure and Funding Analysis note to the accounts, and 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 change 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 31st March 2018 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

Primary Statements

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, covering both Authority employees and those of other admitted bodies.

Changes in Accounting Standards

There were no material changes in accounting standards for 2017/18.

Date of Authorisation of Accounts

The accounts were authorised for issue by the Director of Corporate Resources on the 27 July 2018. This was the last date when events after the Balance Sheet date have been considered.

**C TAMBINI
DIRECTOR OF CORPORATE RESOURCES
27 JULY 2018**

Movement In Reserves Statement

	General Fund Balance £m	Earmarked Reserves balance £m	Total Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m	Note
Movement In Reserves During 2017/18									
Balance at 31 March 2017 Brought Forward	25.8	109.4	135.2	2.7	18.3	156.2	57.2	213.4	
Total Comprehensive Expenditure and Income	(6.1)	0.0	(6.1)	0.0	0.0	(6.1)	104.3	98.2	
Adjustments between accounting basis & funding basis under regulations	4.3	15.7	20.0	(1.5)	(5.9)	12.6	(12.6)	0.0	8
Increase/ (Decrease) in Year	(1.8)	15.7	13.9	(1.5)	(5.9)	6.5	91.7	98.2	
Balance at 31 March 2018 Carried Forward	24.0	125.1	149.1	1.2	12.4	162.7	148.9	311.6	

Movement In Reserves During 2016/17

Balance at 31 March 2016 Brought Forward	40.4	90.6	131.0	11.0	5.9	147.9	89.5	237.4	
Total Comprehensive Expenditure and Income	4.3	0.0	4.3	0.0	0.0	4.3	(28.3)	(24.0)	
Adjustments between accounting basis & funding basis under regulations	(18.9)	18.8	(0.1)	(8.3)	12.4	4.0	(4.0)	0.0	8
Increase/ (Decrease) in Year	(14.6)	18.8	4.2	(8.3)	12.4	8.3	(32.3)	(24.0)	
Balance at 31 March 2017 Carried Forward	25.8	109.4	135.2	2.7	18.3	156.2	57.2	213.4	

Comprehensive Income and Expenditure Statement

2016/17				2017/18			
Gross Expenditure	Gross Income	Net Expenditure	Note	Gross Expenditure	Gross Income	Net Expenditure	
£m	£m	£m		£m	£m	£m	
CONTINUING SERVICES							
232.2	(87.7)	144.5	Adults and Communities	230.2	(93.3)	136.9	
19.2	(7.3)	11.9	Chief Executive's Department	20.6	(8.2)	12.4	
334.8	(225.4)	109.4	Children and Family Services	331.0	(221.3)	109.7	
69.8	(25.3)	44.5	Corporate Resources	73.6	(28.8)	44.8	
87.1	(24.5)	62.6	Environment and Transport	94.5	(27.8)	66.7	
28.3	(28.2)	0.1	Public Health Department	27.3	(27.1)	0.2	
2.0	(1.8)	0.2	Central Items	3.0	(4.8)	(1.8)	
773.4	(400.2)	373.2	NET COST OF SERVICES	780.2	(411.3)	368.9	
0.3	(0.4)	(0.1)	Other Operating Expenditure (Excluding transfer of Academies)	13	0.3	(0.3)	0.0
15.0	0.0	15.0	Other Operating Expenditure (Transfer of Academies)	6,13	8.9	0.0	8.9
69.1	(40.2)	28.9	Financing and Investment Income and Expenditure	14	63.0	(36.3)	26.7
0.0	(421.3)	(421.3)	Taxation and Non-specific Grant Income	15	0.0	(398.4)	(398.4)
	(4.3)		(SURPLUS) / DEFICIT ON PROVISION OF SERVICES			6.1	
			Items that will not be reclassified to the (surplus) or deficit on the provision of services:				
	(45.0)		Surplus on Revaluation of Property, Plant and Equipment	(note 17)		(48.1)	
	73.4		Remeasurement of the Net Defined Benefit Liability/(Asset)	(note 16)		(55.0)	
	28.4		Total Items that Will Not Be Reclassified to the (Surplus) or Deficit on the Provision of Services			(103.1)	
			Items that will may be reclassified to the (surplus) or deficit on the provision of services:				
	(0.1)		Deficit on the Revaluation of Available for Sale Financial Assets	(note 10)		(1.2)	
	(0.1)		Total Items that May Be Reclassified to the (Surplus) or Deficit on the Provision of Services			(1.2)	
	28.3		OTHER COMPREHENSIVE (INCOME) AND EXPENDITURE			(104.3)	
	24.0		TOTAL COMPREHENSIVE (INCOME) AND EXPENDITURE			(98.2)	

Primary Statements

Balance Sheet

31 March 2017		31 March 2018	
£m		Note	£m
463.8	Land and Buildings	17	506.9
11.2	Vehicles, Plant, Furniture & Equipment	17	11.6
354.8	Infrastructure Assets	17	387.9
11.3	Community Assets	17	11.3
30.5	Assets Under Construction	17	16.0
3.2	Surplus Assets	17	3.4
874.8	Total Property, Plant and Equipment		937.1
1.1	Investment Property	19	1.1
4.5	Heritage Assets	18	4.5
2.4	Intangible Assets	17	2.2
19.2	Long Term Investments	20	37.4
43.1	Long Term Debtors	22	36.5
945.1	TOTAL NON-CURRENT ASSETS		1,018.8
2.3	Assets Held for Sale	17	1.7
0.4	Current Intangible Assets	17	0.4
2.5	Inventories	21	1.0
77.0	Short Term Debtors	23	91.2
23.4	Cash and Cash Equivalents	24	33.8
196.5	Short Term Investments	20	170.6
302.1	TOTAL CURRENT ASSETS		298.7
(13.4)	Short Term Borrowing	20	(3.7)
(109.3)	Short Term Creditors	26	(115.8)
(2.5)	Short Term Capital Grants Receipts in Advance	38	(1.1)
(0.0)	Short Term Finance Lease Liabilities	42	(0.1)
(3.8)	Short Term Provisions	27	(3.8)
0.0	Bank Overdraft	24	0.0
(129.0)	TOTAL CURRENT LIABILITIES		(124.5)
(267.5)	Long Term Borrowing	20	(267.0)
(1.4)	Long Term Finance Lease Liabilities	42	(1.2)
(3.4)	Long Term Creditors	25	(3.2)
(4.0)	Long Term Provisions	27	(3.5)
(614.5)	Net Pensions Liability	10	(589.2)
(14.0)	Long Term Capital Grants Receipts in Advance	38	(17.3)
(904.8)	TOTAL NON-CURRENT LIABILITIES		(881.4)
213.4	NET ASSETS / (LIABILITIES)		311.6
25.8	General Fund	11	24.0
109.4	Earmarked Revenue Reserves	12	125.1
2.7	Capital Receipts Reserve		1.2
18.3	Capital Grants Unapplied		12.4
156.2	TOTAL USABLE RESERVES		162.7
247.7	Revaluation Reserve	10	282.6
(0.8)	Available for Sale Financial Instruments Reserve	10	0.4
430.2	Capital Adjustment Account	10	460.3
(5.2)	Financial Instruments Adjustment Account	10	(4.9)
(614.5)	Pension Reserve	10	(589.2)
5.4	Collection Fund Adjustment Account	10	3.7
(5.6)	Accumulated Absences Account	10	(4.0)
57.2	TOTAL UNUSABLE RESERVES		148.9
213.4	TOTAL RESERVES		311.6

Cash Flow Statement

2016/17 £m		Note	2017/18	
			£m	£m
(4.3)	Net (surplus) / deficit on the provision of services			6.1
(91.2)	Adjust net (surplus) / deficit on the provision of services for non cash movements	28	(85.0)	
37.0	Adjust for items included in the net (surplus) / deficit on the provision of services that are investing and financing activities	28	33.6	
11.7	Net Cash flows from Operating Activities	29	11.3	
(46.8)	Total Net cash flows from Operating Activities			(34.0)
67.0	Net cash flows from Investing Activities	30		13.6
0.5	Net cash flows from Financing Activities	31		10.0
20.7	Net (Increase)/Decrease in Cash and Cash Equivalents			(10.4)
(44.1)	Cash and Cash Equivalents at the Beginning of the Reporting Period			(23.4)
(23.4)	Cash and Cash Equivalents at the End of the Reporting Period			(33.8)

The notes to the financial statements are detailed on pages 16 - 90.

Notes to the Accounts

Note 1: Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and the way in which it is funded from resources (e.g. grants, council tax and business rates) by the Authority in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Authority's departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Expenditure & Funding Analysis

Net Expenditure Chargeable to the General Fund	2016/17		Service Segment	2017/18		Net Expenditure in the CIES
	Adjustments between Funding and Accounting Basis	Net Expenditure in the CIES		Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis	
£m	£m	£m		£m	£m	£m
132.9	11.6	144.5	Adults and Communities Department	123.7	13.2	136.9
10.6	1.3	11.9	Chief Executives' Department	10.7	1.7	12.4
73.2	36.2	109.4	Children and Family Services Department	72.9	36.8	109.7
32.3	12.2	44.5	Corporate Resources Department	32.2	12.6	44.8
47.6	15.0	62.6	Environment and Transport Department	49.3	17.4	66.7
(0.1)	0.2	0.1	Public Health Department	(0.3)	0.5	0.2
0.2	0.0	0.2	Central Items	(1.8)	0.0	(1.8)
296.7	76.5	373.2	Net Cost of Services	286.7	82.2	368.9
(300.9)	(76.6)	(377.5)	Other Income and Expenditure	(300.6)	(62.2)	(362.8)
(4.2)	(0.1)	(4.3)	(Surplus) or Deficit	(13.9)	20.0	6.1
		(131.0)	Opening General Fund Balance			135.2
		(4.2)	Less /Plus Surplus or (Deficit) on General Fund Balance in Year			(13.9)
		135.2	Closing General Fund Balance			149.1

Notes to the Accounts

Note 2: Expenditure and Funding Analysis (a)

This note provides reconciliation for the main adjustments to Net Expenditure chargeable to the General Fund to arrive at the amounts in the CIES. The relevant transfers between reserves are explained in the Movement in Reserves Statement (MIRS).

Adjustments Between Funding and Accounting Basis 2017/18

Adjustments from the GCF to arrive at the CIES	Adjustments for Capital Purposes	Adjustments for Pensions Purposes	Other Adjustments	Total Adjustments
	£m	£m	£m	£m
Service Segment				
Corporate Resources Department	6.0	6.5	0.1	12.6
Chief Executives' Department	0.1	1.6	0.0	1.7
Children and Family Services Department	27.5	10.9	(1.6)	36.8
Environment and Transport Department	13.5	3.9	0.0	17.4
Adults and Communities Department	7.0	6.2	0.0	13.2
Public Health Department	0.0	0.5	0.0	0.5
Central Items	0.0	0.0	0.0	0.0
Net Cost of Services	54.1	29.6	(1.5)	82.2
Other Income and Expenditure from the Expenditure and Funding Analysis	(63.6)	0.0	1.4	(62.2)
Difference between the GCF surplus or deficit and the CIES surplus or deficit on provision of services	(9.5)	29.6	(0.1)	20.0

Adjustments Between Funding and Accounting Basis 2016/17

Adjustments from the GCF to arrive at the CIES	Adjustments for Capital Purposes	Adjustments for Pensions Purposes	Other Adjustments	Total Adjustments
	£m	£m	£m	£m
Service Segment				
Corporate Resources Department	8.4	3.7	0.1	12.2
Chief Executives' Department	0.4	0.9	0.0	1.3
Children and Family Services Department	28.5	6.6	1.1	36.2
Environment and Transport Department	12.8	2.2	0.0	15.0
Adults and Communities Department	7.6	4.0	0.0	11.6
Public Health Department	0.0	0.2	0.0	0.2
Central Items	0.0	0.0	0.0	0.0
Net Cost of Services	57.7	17.6	1.2	76.5
Other Income and Expenditure from the Expenditure and Funding Analysis	(74.7)	0.0	(1.9)	(76.6)
Difference between the GCF surplus or deficit and the CIES surplus or deficit on provision of services	(17.0)	17.6	(0.7)	(0.1)

Notes to the Accounts

1) Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

Other operating expenditure – The adjustments for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – The statutory charges for capital financing i.e. Minimum Revenue Provision (MRP) and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure – Where capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

2) Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

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

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

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

For Financing and investment income and expenditure - The other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

The charge under taxation and non-specific grant income and expenditure – This represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code.

Income received by the Authority is analysed on a segmental basis as follows:

2016/17 Income from Services £m	Service Segment	2017/18 Income from Services £m
(31.7)	Corporate Resources Department	(33.1)
(8.0)	Chief Executives' Department	(9.6)
(229.2)	Children and Family Services Department	(217.1)
(25.0)	Environment and Transport Department	(32.4)
(94.5)	Adults and Communities Department	(93.9)
(28.3)	Public Health Department	(27.1)
(6.3)	Central items	(4.0)
(423.0)	Total Income Analysed on a Segmental Basis	(417.2)

Note 2: Expenditure and Funding Analysis (b)

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

2016/17 £m		2017/18 £m
	Expenditure	
276.9	Employee Benefits Expenses	273.5
24.6	IAS 19 and Other Pension Cost Adjustments	37.5
439.9	Other Service Expenses	431.6
50.7	Depreciation, amortisation and impairment	53.7
16.0	Interest Payments	15.7
0.3	Precepts and Levies	0.3
14.4	Loss on Disposal of Non-Current Assets	8.7
822.8	Total Expenditure	821.0
	Income	
(170.3)	Fees, Charges and Other Income	(163.8)
(4.6)	Interest and Investment Income	(4.5)
(311.5)	Council Tax and NNDR	(329.0)
(340.1)	Government Grants and Contributions	(317.0)
(0.6)	(Surplus) on Trading Accounts	(0.6)
(827.1)	Total Income	(814.9)
(4.3)	(Surplus) or Deficit on Provision of Services	6.1

Note 3: Accounting standards issued but not yet adopted

At the balance sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- IFRS 9 Financial Instruments, which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables, and available for sale to amortised cost and fair value through other comprehensive income respectively based on the contractual cashflows and business model for holding the assets. Due to the classification and security of the majority of the Councils financial instruments, the impact of the change is unlikely to have a material impact on the financial statements.
- IFRS 15 Revenue from Contracts introduces a five-step process for recognising revenue based on the transfer of control rather than the current transfer of risk and rewards. The Council does not have any material revenue streams within the scope of the new standard.
- IAS 7 Statement of Cash Flows (Disclosure Initiative) may require additional analysis of Cash Flows from Financing Activities (disclosed at Note 31). These amendments will not have a material effect on the financial statements.
- IAS 12 Income Taxes (Recognition of Deferred tax Assets for Unrealised Losses) applies to deferred tax assets related to debt instruments measured at fair value. The council does not hold any such debt instruments.

Notes to the Accounts

- IFRS 16 Leases will require the County Council to recognise most leases on balance sheet as right-of-use assets with corresponding lease liabilities. The code is expected to change for 2019/20. The impact of the change is being assessed.

Note 4: Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 50, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made 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 overall net assets of £7.2m. At this stage, the scheme administrators do not intend to request any contributions, however the position continues to be regularly monitored and if it becomes probable that a transfer of future economic benefits will be required a Provision will be established.
- 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 40.
- 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 5: 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 2018 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	<p>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 presents uncertainty as to whether the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p> <p>The carrying value of Property, Plant and Equipment at 31 March 2018 is £937.1m.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for Property, Plant and Equipment would increase by £0.9m for every year that useful lives had to be reduced.</p>

Notes to the Accounts

Insurance Reserve	<p>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.</p> <p>There is uncertainty that the Authority may have to meet potential liabilities arising from its failed former insurers. Municipal Mutual Insurance Limited (MMI) that is subject to a run-off of claims following its closure to insurance business in 1992 and the Independent Insurance Company Limited that had entered liquidation.</p> <p>The latest accounts of MMI show net assets of £7.2m as at the end of December 2017.</p>	<p>The position is regularly reviewed to ensure that there are sufficient funds in the insurance reserve to fund future uninsured liabilities.</p> <p>As at 31 March 2018 the Insurance Reserve has a balance of £12.3m as shown in note 12.</p>
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. 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.</p> <p>The carrying value of the Pension Liability at 31 March 2018 is £589.2m</p>	<p>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 £175.3m. A one year increase in member life expectancy compared with the assumption used would increase the liabilities by between £55.0m and £91.7m.</p> <p>However, the assumptions interact in complex ways. During 2017/18, the Authority's actuaries advised that the net pension liability had decreased by £21.3m as a result of estimates being corrected as a result of experience and decreased by £30.8m attributable to updating of the assumptions.</p>
Debtors	<p>At 31 March 2018, the Authority had a balance of sundry debtors of £20.7m and secured memo debt (elderly persons debt secured against properties) of £4.5m. 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.</p>	<p>If collection rates were to deteriorate, a doubling of the amount of the impairment for doubtful debts would require an additional £2.0m to be set aside as an allowance.</p>

Note 6: Material Items of Income and Expense

During 2017/18 eighteen schools transferred to Academy Status resulting in the net book value of the schools, £8.9m (2016/17 fourteen schools at £15.0m) 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 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 2018/19 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 2017/18 there was an overall net reduction in liabilities to the Authority's pension scheme totalling £5.3m (2016/17 £2.4m) on settlement which has been credited to the Central Items line in the CIES.

Note 7: Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Director of Corporate Resources on 27 July 2018. 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 2018, 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 2018 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 two schools have transferred to Academy Status by the authorised for issue date.

On the 23rd June 2016 The United Kingdom of Great Britain and Northern Ireland (UK) voted for withdrawal from the European Union (EU). Subsequently, on the 29 March 2017 Parliament enacted Article 50 of the Lisbon Treaty. In so doing this triggered the legal framework for withdrawal and commenced a formal period of two years in which the particulars will be decided. Exit from the EU is scheduled for 29 March 2019. Until that date the UK remains a full member of the EU with all the rights and obligations of EU membership. It is therefore considered that triggering of Article 50 represents a non-adjusting event for which no estimate of its financial effect on the Authority can be reliably made.

Note 8: 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 Fund Balance

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

Notes to the Accounts

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 9: Usable Reserves

2017/18	Usable Reserves			Movement in Usable Reserves £m
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	
	£m	£m	£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	25.5	0.0	0.0	(25.5)
Revaluation losses on Property, Plant and Equipment	16.2	0.0	0.0	(16.2)
Amortisation of intangible assets	0.8	0.0	0.0	(0.8)
Capital grants and contributions	(39.0)	0.0	0.0	39.0
Revenue expenditure funded from capital under statute	11.3	0.0	0.0	(11.3)
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	17.5	0.0	0.0	(17.5)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	(10.8)	0.0	0.0	10.8
Principal repayments of transferred Debt & Local Authority Mortgage Scheme (LAMS)	7.4	0.0	0.0	(7.4)
Voluntary provision for the Repayment of Debt	0.0	0.0	0.0	0.0
Capital expenditure charged against the General Fund	(25.0)	0.0	0.0	25.0
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	(5.9)	5.9
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	(13.4)	13.4	0.0	0.0
Use of the Capital Receipts Reserve to finance new capital expenditure	0.0	(14.9)	0.0	14.9
Adjustments primarily involving the Financial Instruments Adjustment Account				

Notes to the Accounts

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	(0.2)	0.0	0.0	0.2
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	29.6	0.0	0.0	(29.6)
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	1.6	0.0	0.0	(1.6)
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	(1.6)	0.0	0.0	1.6
Adjustments primarily involving Investment Property Fair Value Valuation				
Gains and losses on investment property fair value measurement are reversed out of the General County Fund to the Capital Adjustment Account as per statutory regulations	0.0	0.0	0.0	0.0
Total Adjustments	20.0	(1.5)	(5.9)	(12.6)

2016/17 Comparator	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	
	£m	£m	£m	£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	25.8	0.0	0.0	(25.8)
Revaluation losses on Property, Plant and Equipment	24.8	0.0	0.0	(24.8)
Amortisation of intangible assets	0.6	0.0	0.0	(0.6)
Capital grants and contributions	(48.8)	0.0	0.0	48.8
Revenue expenditure funded from capital under statute	6.2	0.0	0.0	(6.2)

Notes to the Accounts

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	29.4	0.0	0.0	(29.4)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	(11.3)	0.0	0.0	11.3
Principal repayments of transferred Debt	1.9	0.0	0.0	(1.9)
Voluntary provision for the Repayment of Debt	(4.5)	0.0	0.0	4.5
Capital expenditure charged against the General Fund	(13.8)	0.0	0.0	13.8
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	(12.4)	0.0	12.4	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	(14.4)	14.4	0.0	0.0
Use of the Capital Receipts Reserve to finance new capital expenditure	0.0	(22.7)	0.0	22.7
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	(0.2)	0.0	0.0	0.2
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	17.5	0.0	0.0	(17.5)
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	(1.7)	0.0	0.0	1.7
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	1.0	0.0	0.0	(1.0)

Notes to the Accounts

Adjustments primarily involving Investment Property Fair Value Valuation				
Gains and losses on investment property fair value measurement are reversed out of the General Fund to the Capital Adjustment Account as per statutory regulations	(0.2)	0.0	0.0	0.2
Total Adjustments	(0.1)	(8.3)	12.4	(4.0)

Note 10: 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.

2016/17 £m		2017/18 £m
221.0	Balance at 1 April	247.7
64.6	Upward revaluation of assets	74.0
(19.6)	Downward revaluation of assets losses not charged to the Surplus or (Deficit) on the Provision of Services	(25.9)
(15.4)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(10.5)
(2.9)	Difference between fair value depreciation and historical cost depreciation	(2.7)
247.7	Balance at 31 March	282.6

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.

2016/17 £m		2017/18 £m
(0.9)	Balance at 1 April	(0.8)
0.1	Change in Fair Value of Available for Sale Financial Instruments	1.2
(0.8)	Balance at 31 March	0.4

Notes to the Accounts

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

2016/17 £m		2017/18 £m
399.4	Balance at 1 April	430.2
Reversal of items relating to capital expenditure debited or credited to Comprehensive Income and Expenditure:		
(23.6)	Charges for depreciation of non-current assets	(23.8)
(24.7)	Revaluation losses on Property, Plant and Equipment	(16.2)
(0.6)	Amortisation of intangible assets	(0.8)
(6.2)	Revenue expenditure funded from capital under statute	(11.3)
(13.4)	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	(6.0)
Capital financing applied in year:		
22.7	Use of the Capital Receipts Reserve to finance new capital expenditure	14.9
48.8	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	39.0
0.0	Application of grants to capital financing from the Capital Grants Unapplied Account	5.9
11.3	Statutory provision for the financing of capital investment charged against the General Fund Balance	10.8
4.5	Voluntary provision for the financing of capital investment charged against the General Fund Balance	0.0
(2.0)	Principal Repayments of transferred Debt and Local Authority Mortgage Scheme	(7.4)
13.8	Capital expenditure charged against the General Fund Balance	25.0
0.2	Movements in the Fair Value of Investment Properties	0.0
430.2	Balance at 31 March	460.3

Notes to the Accounts

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.

2016/17 £m		2017/18 £m
(5.4)	Balance at 1 April	(5.2)

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:

0.8	Annual write down of premiums paid on rescheduled debt	0.6
(0.6)	Annual write down of discounts received on rescheduled debt	(0.3)
(5.2)	Balance at 31 March	(4.9)

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.

2016/17 £m		2017/18 £m
(523.7)	Balance at 1 April	(614.5)
(73.4)	Remeasurements of the net defined benefit liability	55.0
(51.7)	Reversal of items relating to retirement benefits debited or credited to the Surplus or (Deficit) on the Provision of Services in the CIES	(64.5)
34.3	Employer's pensions contributions and direct payments to pensioners payable in the year	34.8
(614.5)	Balance at 31 March	(589.2)

Notes to the Accounts

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 Fund from the Collection Funds (of billing authorities).

2016/17 £m		2017/18 £m
3.7	Balance at 1 April	5.4
1.7	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.	(1.7)
5.4	Balance at 31 March	3.7

Accumulated Absences Account

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

2016/17 £m		2017/18 £m
(4.6)	Balance at 1 April	(5.6)
4.6	Settlement or cancellation of accrual made at the end of the preceding year	5.6
(5.6)	Amounts accrued at the end of the current year	(4.0)
1.0	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	1.6
(5.6)	Balance at 31 March	(4.0)

Note 11: General Fund Balance

The balance of the fund as at 31 March 2018, £24.0m (2016/17 £25.8m), has the following earmarked sums:

2016/17 £m		2017/18 £m
9.7	Delegated Funding for Schools	8.9
1.3	Carry forward of underspend across other services	0.3
11.0	Earmarked Reserves as at 31 March	9.2
14.8	Uncommitted balance	14.8
25.8	Balance at 31 March	24.0

Note 12: Movements in Earmarked Revenue Reserves

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

	Balance at	Transfers		Balance at	Transfers		Balance at
	31 March	From	To	31 March	From	To	31 March
	2016 £m	Revenue £m	£m	2017 £m	Revenue £m	£m	2018 £m
Insurance	19.1	1.3	(0.2)	20.2	2.1	(10.0)	12.3
Renewals of Vehicles & Equipment	4.3	1.8	(0.5)	5.6	0.3	(0.2)	5.7
Children & Family Services							
- Supporting Leicestershire Families	2.3	0.2	(0.9)	1.6	0.0	0.0	1.6
- C&FS Developments	4.4	0.0	(1.7)	2.7	0.0	(1.4)	1.3
- Special Educational Needs Disability	0.9	0.2	(0.3)	0.8	0.3	0.0	1.1
Adults & Communities							
- Adult & Social Care Developments	6.9	1.0	(1.1)	6.8	7.7	(12.5)	2.0
Public Health							
- Leicestershire & Rutland Sport	1.0	0.0	(0.1)	0.9	0.2	0.0	1.1
Environment & Transport							
- Commuted Sums	2.3	0.3	0.0	2.6	0.3	(0.3)	2.6
- LLITM	0.8	0.4	0.0	1.2	1.1	(0.1)	2.2
- Development & Advance Design	0.6	0.8	0.0	1.4	0.0	(0.3)	1.1
Corporate Resources							
- Industrial Properties	1.2	0.6	(0.7)	1.1	0.5	(0.4)	1.2
Corporate							
- Transformation Fund	8.7	10.8	(6.1)	13.4	2.4	(3.9)	11.9
- Capital Financing	5.1	31.0	(10.6)	25.5	40.4	(5.2)	60.7
- Broadband	6.1	0.0	(0.7)	5.4	0.5	(0.2)	5.7
- Business Rates Retention	1.4	0.0	0.0	1.4	0.2	0.0	1.6
- Inquiry & Other Costs	0.0	2.0	(0.7)	1.3	0.0	(0.1)	1.2
Other (reserves below £1m at 31 March 2018)	20.2	3.0	(8.5)	14.7	2.2	(7.3)	9.6
Sub-Total	85.3	53.4	(32.1)	106.6	58.2	(41.9)	122.9
Children and Family Services – Dedicated Schools Grant	5.3	0.0	(2.5)	2.8	0.7	(1.3)	2.2
TOTAL	90.6	53.4	(34.6)	109.4	58.9	(43.2)	125.1

Notes to the Accounts

The following are the main reserves held by the Authority:

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 2018 and a reserve to meet future claims.

Renewal of Systems, Equipment and Vehicles

Resources for the funding of replacement IT systems, equipment and vehicles.

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.

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.

Leicester and Leicestershire Integrated Transport Model

The reserve is for money generated from charging other local authorities for using this model. Surplus income is added into the reserve and will be used to finance activity to refresh the model in the future.

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 (DSG)

DSG is ring fenced and can only be applied to meet expenditure properly included in the schools budget, as defined in the School and Early Years Finance (England) Regulations 2017.

Note 13: Other Operating Expenditure

2016/17 £m		2017/18 £m
0.3	Flood Defence Levies	0.3
(0.4)	(Gains)/losses on the disposal of non-current assets (Excluding Academies)	(0.3)
15.0	(Gains)/losses on the disposal of Academies	8.9
14.9	Total	8.9

Note 14: Financing and Investment Income and Expenditure

2016/17 £m		2017/18 £m
16.0	Interest payable and similar charges	15.8
18.3	Pensions interest cost and expected return on pensions assets	16.1
(4.4)	Interest receivable and similar income	(4.5)
(0.4)	Income & Expenditure in relation to investment properties and changes in their fair value	(0.1)
(0.6)	Other investment income (surplus or deficit on Trading Accounts)	(0.6)
28.9	Total	26.7

Note 15: Taxation and Non-Specific Grant Incomes

2016/17 £m		2017/18 £m
(251.8)	Council tax income	(266.7)
(59.7)	Non domestic rates	(62.3)
(48.6)	Non ring-fenced government grants	(30.4)
(61.2)	Capital grants and contributions	(39.0)
(421.3)	Total	(398.4)

Note 16: 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 Local Pension Committee of Leicestershire County Council. Policy is determined in accordance with the Pension Fund Regulations. The investment managers of the fund are appointed by the committee.

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

Notes to the Accounts

statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note 50.

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 Fund via the Movement in Reserves Statement.

The IAS 19 balance sheet position as at 31st March 2018 has improved since the previous year. The discount rate used in the valuation increased marginally (in line with AA rated corporate bond yields) from 2.6% to 2.7%, and this was positive as it had the impact of reducing the present value of future liabilities. Overall the net liability within the LGPS reduced to £589.2m (31 March 2017, £614.5m).

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

2016/17 £m		2017/18 £m
	Comprehensive Income and Expenditure Statement	
	Cost of Services	
	Service cost comprising:	
34.7	Current service cost	53.1
1.2	Past service costs	0.5
(2.4)	Settlements and Curtailments	(5.2)
	Financing and Investment Income and Expenditure:	
18.3	Net Interest expense	16.1
51.8	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	64.5
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the net defined benefit liability comprising:	
(179.7)	Return on planned assets (excluding the amount included in the net interest expense)	(22.7)
(18.5)	Actuarial gains/losses arising from changes in demographic assumptions	0.0
314.0	Actuarial gains/losses arising from changes in financial assumptions	(30.8)
(42.5)	Other	(1.5)
125.1	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	9.5
	Movements in Reserves Statement	
17.5	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the code	29.6
	Actual amount charged against the General Fund	
	Balance for Pensions in the year	
31.3	Employers contributions payable to scheme	31.8
3.0	Unfunded benefits	3.0
34.3	Total amount charged against the General Fund Balance for Pensions in the year	34.8

Notes to the Accounts

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 2018 was a loss of £589.2m and at 31 March 2017 was a loss of £614.5m.

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:

2016/17 £m		2017/18 £m
(1,522.5)	As at 1 April	(1,816.5)
(34.7)	Current service cost	(53.1)
(53.0)	Interest Cost	(47.2)
(8.7)	Contributions by scheme participants	(8.6)
	Remeasurement (gains) and losses:	
18.5	Changes in demographic assumptions	0.0
(314.0)	Changes in financial assumptions	30.8
41.4	Other	1.3
	Past service costs:	
(1.2)	(Losses) / Gains on curtailments	(0.5)
52.3	Benefits paid	51.3
5.4	Liabilities extinguished on settlements	9.9
(1,816.5)	As at 31 March	(1,832.6)

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

2016/17 £m		2017/18 £m
999.8	As at 1 April	1,202.0
34.8	Interest Income	31.1
	Remeasurement gain/(loss):	
179.7	Return on plan assets	22.7
32.2	Employer contributions	31.9
8.7	Contributions by scheme participants	8.6
(52.3)	Benefits paid	(51.3)
3.1	Contributions in respect of unfunded benefits	3.0
(3.0)	(Losses) / Gains on settlements	(4.6)
1,202.0	As at 31 March	1,243.4

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.

Notes to the Accounts

Local Government Pension Scheme assets comprised:

2016/17			2017/18	
£m	% of total assets		£m	% of total assets
31.0	3%	Equity Securities: Other	30.2	2%
103.5	9%	Debt Securities: UK Government	103.8	8%
13.2	1%	Other	11.4	1%
45.4	4%	Private Equity	44.2	4%
96.6	8%	Real Estate: UK Property	109.2	9%
575.7	48%	Investment Funds and Unit Trusts: Equities	585.8	47%
107.8	9%	Bonds	142.7	12%
40.4	3%	Hedge Funds	43.3	3%
28.3	2%	Commodities	29.1	2%
53.8	4%	Infrastructure	58.8	5%
30.1	3%	Other	36.8	3%
(0.6)	0%	Derivatives Interest rate	0.0	0%
(0.0)	0%	Foreign Exchange	(3.6)	0%
76.8	6%	Cash and Cash Equivalents	51.7	4%
1,202.0	100%	As at 31 March	1,243.4	100%

The scheme history of the pension fund is as follows:

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Present value of liabilities:	(1,479.5)	(1,730.8)	(1,522.5)	(1,816.5)	(1,832.6)
Fair value of assets:	876.2	999.8	998.8	1,202.0	1,243.4
Surplus / (Deficit)	(603.3)	(731.0)	(523.7)	(614.5)	(589.2)

The liability shows the underlying commitment that the Authority has in the long run to pay post-employment (retirement) benefits. This total liability of £589.2m 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.

Notes to the 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 2016.

The principal assumptions used by the actuary have been:

31 March 2017		31 March 2018
	Mortality assumptions (in years):	
	Longevity at 65 for current pensioners:	
22.1	▪ Men	22.1
24.3	▪ Women	24.3
	Longevity at 65 for future pensioners:	
23.8	▪ Men	23.8
26.2	▪ Women	26.2
2.4%	Rate of inflation	2.4%
3.4%	Rate of increases in salaries	3.4%
2.4%	Rate of increase in pensions	2.4%
2.6%	Rate for discounting scheme liabilities	2.7%
	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 2018:

	Approximate % Increase in Employer Liability	Approximate monetary amount (£m)
0.5% decrease in Real Discount Rate	10%	175.3
0.5% increase in the Salary Increase Rate	1%	23.8
0.5% increase in the Pension Increase Rate	8%	149.2

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 2016.

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 anticipates to pay £32.6m expected contributions to the scheme in 2018/19.

The weighted average duration of the defined benefit obligation for scheme members is 17.4 years, 2017/18 (17.4 years 2016/17).

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 2017/18 the Authority paid £8.1m (2016/17 £9.0m) to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 16.5% (2016/17 16.5%) 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'

Notes to the Accounts

service it has awarded, together with the related increases. In 2017/18 these amounted to £2.0m (2016/17 £2.1m), representing 4.5% (2016/17 4.03%) 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 16b.

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 2017/18 the Authority paid £0.1m to the NHS pension scheme (£0.1m in 2016/17) in respect of public health staff. This amount is recognised as an expense in the CIES under the Public Health services line.

Note 17: Property, Plant and Equipment, Intangible and Held for Sale Assets

	Land and Buildings*	Vehicles Plant and Equipment	Infrastructure	Community Assets	Assets Under Construction	Surplus Assets	Total	Intangible	Assets Held for Sale
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Gross Carrying Amount as at 31 March 2017	471.6	14.1	365.3	11.3	30.5	3.2	896.0	3.0	2.3
Additions	34.0	3.9	26.9	0.0	8.1	0.0	72.9	0.6	0.0
Capital Expenditure Not Increasing Value	(4.3)	(0.2)	0.0	0.0	0.0	0.0	(4.5)	0.0	0.0
Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve	45.5	0.0	0.0	0.0	0.0	0.5	46.0	0.0	0.9
Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit	(18.7)	0.0	0.0	0.0	0.0	0.0	(18.7)	0.0	0.0
Disposals	(13.6)	(0.2)	0.0	0.0	0.0	(2.2)	(16.0)	0.0	(1.5)
Transfers Between Asset Categories	3.0	0.0	17.6	0.0	(22.6)	2.0	0.0	0.0	0.0
Gross Carrying Amount as at 31 March 2018	517.5	17.6	409.8	11.3	16.0	3.5	975.7	3.6	1.7
Accumulated Depreciation as at 1 April 2017	(7.8)	(2.9)	(10.5)	0.0	0.0	0.0	(21.2)	(0.6)	0.0
Depreciation	(7.3)	(3.1)	(11.4)	0.0	0.0	(0.1)	(21.9)	(0.8)	0.0
Depreciation written out to the Revaluation Reserve	1.2	0.0	0.0	0.0	0.0	0.0	1.2	0.0	0.0
Depreciation written out to the Surplus/ Deficit	2.3	0.0	0.0	0.0	0.0	0.0	2.3	0.0	0.0
Impairment Losses/(reversals) recognised in the Revaluation reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impairment Losses/(reversals) recognised in the Surplus/Deficit on the provision of services	0.2	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0
Derecognition Depreciation	0.8	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.0
Accumulated Depreciation as at 31 March 2018	(10.6)	(6.0)	(21.9)	0.0	0.0	(0.1)	(38.6)	(1.4)	0.0
Net Book Value as at 31 March 2018	506.9	11.6	387.9	11.3	16.0	3.4	937.1	2.2	1.7

*Includes Travellers' Sites valuation of £2m not shown under Council Dwellings due to materiality.

Notes to the Accounts

	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
Gross Carrying Amount as at 31 March 2016	452.7	11.6	326.0	11.3	30.5	3.3	835.4	2.1	3.4
Additions	23.6	3.0	23.9	0.0	22.7	0.0	73.2	0.9	0.0
Capital Expenditure Not Increasing Value	(4.2)	(0.5)	0.0	0.0	0.0	0.0	(4.7)	0.0	0.0
Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve	41.5	0.0	0.0	0.0	0.0	3.5	45.0	0.0	0.0
Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit	(24.1)	0.0	0.0	0.0	0.0	0.0	(24.1)	0.0	(0.6)
Disposals	(21.1)	0.0	0.0	0.0	0.0	(6.1)	(27.2)	0.0	(2.1)
Transfers Between Asset Categories	3.2	0.0	15.4	0.0	(22.7)	2.5	(1.6)	0.0	1.6
Gross Carrying Amount as at 31 March 2017	471.6	14.1	365.3	11.3	30.5	3.2	896.0	3.0	2.3
Accumulated Depreciation as at 1 April 2016	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	(8.4)	(2.9)	(10.5)	(0.0)	(0.0)	(0.0)	(21.8)	(0.0)	(0.0)
Derecognition Depreciation	0.6	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.0
Accumulated Depreciation as at 31 March 2017	(7.8)	(2.9)	(10.5)	(0.0)	(0.0)	(0.0)	(21.2)	(0.6)	(0.0)
Net Book Value as at 31 March 2017	463.8	11.2	354.8	11.3	30.5	3.2	874.8	2.4	2.3

*Includes Travellers' Sites valuation of £2m not shown under Council Dwellings due to materiality.

During the 2016/17 financial year the Authority implemented a new fixed asset register accounting system. This now allows the Authority to report on accumulated depreciation and the gross carrying value of non-current assets prospectively from the 31 March 2017.

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.

Notes to the Accounts

- 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 2018, the Authority has entered into a number of contracts for the acquisition, construction or enhancement of Property, Plant and Equipment in 2018/19 and future years budgeted to cost £9.9m, (similar commitments at 31 March 2017 were to a value of £21.8m). The following table outlines the major contracts:

Major Contract	£m
Barwell Area Primary School	2.9
Burbage Sketchley Primary School	1.7
Rural Broadband Phase 2	1.2

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
2016/17	14	15.0
2017/18	18	8.9
Total	181	397.8

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.

Notes 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. Note 50 provides further details on the Authority's accounting policies.

	Land and Buildings £m	Surplus Assets £m	Total £m
Carried at Historical Cost:	39.7	0.0	39.7
Valued at Fair Value as at:			
31 March 2018	315.3	1.8	317.1
31 March 2017	93.0	1.6	94.6
31 March 2016	58.9	0.0	58.9
Total Cost or Valuation	506.9	3.4	510.3

Current Intangible Assets

The Authority holds £0.4m of intangible current assets (£0.4m 2016/17). 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-degradable 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 £2.2m (£2.4m 2016/17). 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 50 for further details concerning fair value and the input hierarchy.

	£m	2017/18 £m	£m
	Level 1 <i>Quoted Prices in Active Markets for Identical Assets</i>	Level 2 <i>Other Significant Observable Inputs</i>	Level 3 <i>Significant Unobservable Inputs</i>
Surplus Properties			3.4
Total			3.4
	£m	2016/17 £m	£m
	Level 1 <i>Quoted Prices in Active Markets for Identical Assets</i>	Level 2 <i>Other Significant Observable Inputs</i>	Level 3 <i>Significant Unobservable Inputs</i>
Surplus Properties			3.2
Total			3.2

Notes to the Accounts

Note 18: Heritage Assets

	Art Collection	Archaeo- logical Collection	Fashion Collection	Working Life Collection	Civic Collection	Total
	£m	£m	£m	£m	£m	£m
Net book value as at 31 March 2016	2.9	0.4	0.1	0.9	0.2	4.5
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	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 2017	2.9	0.4	0.1	0.9	0.2	4.5
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	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 2018	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 2017/18. 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.

Heritage Asset Collections:***The Art Collection***

The collection consists of works of art which were initially acquired by the former Education Authority for loan to schools and colleges. Artists represented include Christopher Wood and William Scott. Some of the notable paintings of most value are works by the nineteenth century local artist John Ferneley Snr.

The Archaeological Collection

This collection includes 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, jewelry, and other objects. Most of the items date to around the time of the Roman Conquest of Britain in the 1st century AD.

The Fashion Collection

This collection includes the Symington collection which was created by the Market Harborough Company R. & W. H. Symington, which began to make corsets 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 and tells the story of the 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 Working Life Collection

The collection includes steam and diesel locomotives (from the mid to late 20th century) the Whitwick hearse; steam traction engines, battery electric vehicles (including a local ice cream van) and the Blue Box Century Theatre; the only fully equipped solid structure, mobile theatre in the world. The dream of John Ridley, an engineer, was turned into reality in a Hinckley yard between 1948 and 1952. 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.

The Civic Collection

This collection includes the ceremonial insignia and presentation silver held by the Authority. It also includes the painting 'The Melton Mowbray Horse Fair' by John Ferneley Snr which was presented to the County council by Major Guy Paget in the 1930s.

Note 19: Investment Property

The Authority has recently implemented a commercialisation agenda as part of the Medium Term Financial Strategy. Investment property 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:

2016/17 £m		2017/18 £m
(0.1)	Rental Income From Investment Property	(0.1)
0.0	Direct Operating Expenses	0.0
(0.1)	(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:

2016/17 £m		2017/18 £m
0.9	Opening Balance as at 1st April	1.1
0.0	Additions – Purchases	0.0
0.0	Additions – Construction	0.0
0.0	Additions - Subsequent Expenditure	0.0
0.0	Disposals	0.0
0.2	Gain/Loss From Fair Value Adjustments	0.0
	Transfers:	
0.0	(To)/From Inventory	0.0
0.0	(To)/From Property, Plant & Equipment	0.0
1.1	Closing Balance as at 31st March	1.1

As at the 31st March 2018 no investment properties are classified as assets held for sale.

Notes to the Accounts

Fair Value Hierarchy

The Authority's investment property portfolio has been assessed as Level 2 for valuation purposes. Note 50 provides details of fair value and the input level hierarchy as specified by IFRS 13.

	2017/18		
	£m	£m	£m
Investment Properties	Level 1 <i>Quoted Prices in Active Markets for Identical Assets</i>	Level 2 <i>Other Significant Observable Inputs</i>	Level 3 <i>Significant Unobservable Inputs</i>
Residential Properties		0.6	
Commercial Units		0.4	
Other		0.1	
Total		1.1	

	2016/17		
	£m	£m	£m
Investment Properties	Level 1 <i>Quoted Prices in Active Markets for Identical Assets</i>	Level 2 <i>Other Significant Observable Inputs</i>	Level 3 <i>Significant Unobservable Inputs</i>
Residential Properties		0.6	
Commercial Units		0.4	
Other		0.1	
Total		1.1	

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.

Note 20: 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 2017 Long Term £m	31 March 2017 Current £m		31 March 2018 Long Term £m	31 March 2018 Current £m
		Financial Assets (Investments):		
0.0	196.5	Loans and Receivables	17.0	170.6
19.2	0.0	Available for Sale Financial Assets	20.4	0.0
19.2	196.5	Total Investments	37.4	170.6
		Debtors:		
43.1	0.0	Loans and Receivables	36.5	0.0
0.0	77.0	Financial Assets carried at contract amounts	0.0	91.2
43.1	77.0	Total Included In Debtors	36.5	91.2
		Financial Liabilities (Borrowings):		
204.6	13.4	at Amortised Cost	204.1	3.7
62.9	0.0	at Fair Value	62.9	0.0
267.5	13.4	Total Borrowings	267.0	3.7
1.4	0.0	Total Financial Lease Liabilities	1.3	0.0
17.4	111.8	Total Financial Liabilities (Creditors - carried at contract amount)	20.5	116.9
0.0	23.4	Total Cash and Cash Equivalents	0.0	33.8

Notes to the Accounts

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

2016/17		Financial Liabilities	2017/18	
At Amortised Cost £m	At Fair Value £m		At Amortised Cost £m	At Fair Value £m
13.1	2.7	Total Interest Paid	12.8	2.7

2016/17		Financial Assets	2017/18	
Loans and Receivables £m	At Fair Value £m		Loans and Receivables £m	At Fair Value £m
4.4	0.0	Total Interest Received	4.5	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 2018 for new debt with the same maturity date from comparable lenders.
- Investments; long term – estimated interest rates at 31 March 2018 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 2018	
	Carrying Amount £m	At Fair Value £m
Financial Liabilities	270.7	474.6
Financial Assets	190.0	203.0

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.

Notes to the Accounts

Fair Value Hierarchy

The Authority's financial assets and liabilities have been assessed as Level 2 for valuation purposes. Note 50 provides an explanation of fair value and the input level hierarchy.

Fair Value	2017/18		
	£m	£m	£m
	Level 1 <i>Quoted Prices in Active Markets for Identical Assets</i>	Level 2 <i>Other Significant Observable Inputs</i>	Level 3 <i>Significant Unobservable Inputs</i>
Financial Assets		203.0	
Financial Liabilities		(474.6)	
Total		(271.6)	

Fair Value	2016/17		
	£m	£m	£m
	Level 1 <i>Quoted Prices in Active Markets for Identical Assets</i>	Level 2 <i>Other Significant Observable Inputs</i>	Level 3 <i>Significant Unobservable Inputs</i>
Financial Assets		214.4	
Financial Liabilities		(488.6)	
Total		(274.2)	

Notes to the Accounts

Note 21: Inventories

	Leicestershire Highways (stores)	School Food (consumables)	Sub-total	Other (less than £0.1m)	Total
	£m	£m	£m	£m	£m
Opening Balance 31 March 2017	1.9	0.2	2.1	0.4	2.5
Purchases	11.8	3.5	15.3	0.5	15.8
Recognised as an expense during the year	(13.3)	(3.5)	(16.8)	(0.5)	(17.3)
Written in balance	0.0	0.0	0.0	0.0	0.0
Written off balances	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
Closing Balance 31 March 2018	0.4	0.2	0.6	0.4	1.0

Note 22: Long Term Debtors

31 March 2017 £m		31 March 2018 £m
	Long Term Debtors (amounts falling due after one year)	
32.1	Outstanding debt relating to transferred services (e.g. Unitary Authority, Police, ESPO)	30.2
3.0	Local Authority Mortgage Scheme	0.0
3.3	Residential Care Charges (secured against properties)	3.0
4.7	Other Long Term Debtors	3.3
43.1	Total Long Term Debtors	36.5

Note 23: Short Term Debtors

31 March 2017 £m				31 March 2018 £m		
Debtors	Payments in Advance	Total		Debtors	Payments in Advance	Total
13.0	0.0	13.0	Central Government Bodies	16.1	0.1	16.2
13.6	0.2	13.8	Other Local Authorities	16.6	0.2	16.8
1.4	0.0	1.4	NHS Bodies	2.7	0.1	2.8
0.3	0.0	0.3	Public Corps & Trading Funds	0.4	0.0	0.4
40.7	7.8	48.5	Other Entities & Individuals	36.3	18.7	55.0
69.0	8.0	77.0	Total Short Term Debtors	72.1	19.1	91.2

Note 24: Cash & Cash Equivalents

31 March 2017 £m			31 March 2018 £m	
		Net Cash Balance at Year End:		
(0.3)		School & Imprest Accounts		0.4
2.4		Main Bank Accounts		1.0
2.1		Subtotal Cash In Hand / (Overdrawn)		1.4
11.4		Service User Funds Bank Account*		13.0
9.9		Short-Term Deposits with Banks and Building Societies		19.4
23.4		Total Cash and Cash Equivalents		33.8

* uninvested funds held in separate bank accounts on behalf of service users. An equivalent amounts is shown within creditors on the balance sheet.

Note 25: Long Term Creditors

31 March 2017 £m		31 March 2018 £m	
		Amounts Received in Advance: (more than one years)	
0.7	Regional Growth Fund	0.5	
2.7	Section 106 Housing Developer Revenue Contributions	2.7	
3.4	Total Long Term Creditors	3.2	

Note 26: Short Term Creditors

31 March 2017 £m			31 March 2018 £m		
Creditors	Receipts in Advance	Total	Creditors	Receipts in Advance	Total
12.4	1.2	13.6	13.8	0.7	14.5
7.5	3.5	11.0	9.9	4.0	13.9
4.8	0.4	5.2	2.4	1.4	3.8
0.2	0.1	0.3	0.3	0.2	0.5
69.4	9.8	79.2	74.1	9.0	83.1
94.3	15.0	109.3	100.5	15.3	115.8

Note 27: Provisions

Short Term	31 March 2017	Additional Provisions	Provisions Used	31 March 2018
	£m	£m	£m	£m
Non Domestic Rates	2.4	0.1	0.0	2.5
Insurance	0.3	0.2	(0.2)	0.3
CRC Liability	0.3	0.2	(0.3)	0.2
Other	0.8	1.0	(1.0)	0.8
Total Short Term Provisions	3.8	1.5	(1.5)	3.8

Long Term	31-Mar-17	Additional Provisions	Provisions Used	31-Mar-18
	£m	£m	£m	£m
Insurance	3.9	0.6	(1.0)	3.5
Leased Car Provision	0.1	0.0	(0.1)	0.0
Total Long Term Provisions	4.0	0.6	(1.1)	3.5

Total Provisions	7.8	2.1	(2.6)	7.3
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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 2018 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.

Note 28: Reconciliation of the Surplus on the Comprehensive Income and Expenditure Statement to Revenue Activities Cash Flow

2016/17 £m		2017/18 £m
	Non cash transactions:	
0.4	Movement on provisions	0.5
(17.5)	Movement on pensions (IAS 19)	(29.6)
(51.8)	Depreciation and Impairment	(43.4)
(14.4)	Gain or Loss on disposal of non-current assets	(8.7)
0.2	Movement in the valuation of Investment Properties	0.0
1.7	Movement on the Collection Fund Adjustment Account	(1.6)
(0.1)	Movement on the Available for Sale Reserve	(1.2)
(81.5)		(84.0)
	Revenue items on an accruals basis:	
(7.2)	Change in creditors	(6.5)
0.3	Change in long term creditors	0.2
4.1	Change in debtors	13.4
(6.9)	Change in long term debtors	(6.6)
0.3	Change in Inventories	(1.5)
(0.3)	Change in Intangible Current Assets	0.0
(9.7)		(1.0)
(91.2)	Total adjustments to net surplus or deficit on the provision of services on non cash movements:	(85.0)
	Items classified elsewhere in the statement:	
(0.1)	Movement in Accrued Interest	(0.1)
(11.7)	Servicing of finance	(11.2)
48.8	Capital Grants Received	44.9
37.0	Total adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	33.6

Note 29: Cash Flow Statement - Operating Activities

2016/17 £m		2017/18 £m
(4.3)	Interest received	(4.5)
16.0	Interest Paid	15.8
11.7	Net Cash Flows from Operating Activities	11.3

Note 30: Cash Flow Statement - Investing Activities

2016/17 £m		2017/18 £m
72.5	Purchase of property, plant and equipment, investment property and intangible assets	72.5
59.4	Purchase of short-term and long-term investments	(7.6)
(14.4)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(8.0)
(48.8)	Capital Grants and Contributions	(44.9)
(1.7)	Other receipts from investing activities	1.6
67.0	Net Cash Flows from Investing Activities	13.6

Note 31: Cash Flow Statement - Financing Activities

2016/17 £m		2017/18 £m
0.0	Cash receipts of short-term and long-term borrowing	0.0
0.5	Repayments of short-term and long-term borrowing	10.0
0.5	Net Cash Flows from Financing Activities	10.0

Note 32: Trading Operations

During the year the Authority operated an Industrial Property Trading Account. Services are provided directly to the local economy through the letting of industrial units to local businesses. The following table details the surplus.

	Industrial Properties £m
Income	(1.9)
Expenditure	0.9
Surplus in 2017/18	(1.0)
Surplus in 2016/17	(0.7)

Note 33: Pooled Budgets

The Authority's Adults and Communities department participates in three 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 £1.2m (2016/17 £1.2m) to the pool. The memorandum account shows total expenditure of £4.7m (2016/17 £5.7m) and gross income of £4.7m (2016/17 £5.7m). Funding commenced in 2005/06 and the partners have agreed to commission this service until March 2021.

2016/17 £m		2017/18 £m
	Funding Provided to the Pooled Budget	
(1.2)	Leicestershire County Council	(1.2)
(4.5)	Clinical Commissioning Groups / Leicester City Council / Rutland County Council	(3.5)
(5.7)	Total	(4.7)
	Expenditure Met from the Pooled Budget	
1.1	Leicestershire County Council	1.2
4.6	Clinical Commissioning Groups / Leicester City Council / Rutland County Council	3.5
5.7	Total	4.7
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 £8.3m (2016/17 £13.6m) to the pool. The memorandum account shows total expenditure of £21.5m (2016/17 £26.5m) and gross income from the partners of £22.7m (2016/17 £27.1m). 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.

2016/17 £m		2017/18 £m
	Funding Provided to the Pooled Budget	
(13.6)	Leicestershire County Council	(8.3)
(13.5)	Clinical Commissioning Groups	(14.4)
(27.1)	Total	(22.7)
	Expenditure Met from the Pooled Budget	
13.3	Leicestershire County Council	8.3
13.2	Clinical Commissioning Groups	13.2
26.5	Total	21.5
(0.6)	Net Position on the Pooled Budget	(1.2)
(0.3)	Surplus to the Authority	0.0

Notes to the Accounts

- c) *The Better Care Fund*. On the 1st April 2017, 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. The Better Care Fund enables local authorities and the NHS to jointly plan and deliver local health and social care services. Leicestershire County Council acts as the host to the arrangement but not all expenditure incurred by the pool is passed through the Authority's ledger. The following memorandum account shows gross expenditure of £52.1m (2016/17 £39.4m) and gross income of £52.1m (2016/17 £39.4m).

2016/17 £m		2017/18 £m
	Funding Provided to the Pooled Budget	
(3.4)	Leicestershire County Council	(12.9)
(36.0)	Clinical Commissioning Groups	(39.2)
(39.4)	Total	(52.1)
	Expenditure Met from the Pooled Budget	
3.4	Leicestershire County Council	12.9
36.0	Clinical Commissioning Groups	39.2
39.4	Total	52.1
0.0	Net Position on the Pooled Budget	0.0

Notes to the Accounts

Note 34: Senior 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 whom have the power to direct or control the major functions of the Authority.

Post holder Information (Post title)	Salary	Compensation for loss of office	Benefits in kind	Total Remuneration Excl. Employers Pension Contribution	Employers Pension Contributions (N1)	Total Remuneration - including Employers Pension Contribution
	£000	£000	£000	£000	£000	£000
2017/18						
Chief Executive - John Sinnott	195	0	5	200	46	246
Director of Public Health	130	0	0	130	19	149
Director of Adults & Communities	126	0	0	126	29	155
Director of Corporate Resources - S151 Officer (N2)	114	0	0	114	27	141
Director of Corporate Resources (N3)	88	0	5	93	20	113
Director of Law and Governance	104	0	0	104	24	128
Director of Environment & Transport (N4)	66	0	0	66	15	81
Director of Environment & Transport (N5)	57	0	0	57	13	70
Director of Children & Family Services (N7)	0	0	0	0	0	0
Total	880	0	10	890	193	1,083
2016/17						
Chief Executive - John Sinnott (N6)	193	0	5	198	43	241
Director of Public Health	125	0	0	125	18	143
Director of Adults & Communities	121	0	0	121	27	148
Director of Finance - S151 Officer	107	0	0	107	24	131
Director of Corporate Resources	87	0	4	91	19	110
Director of Law and Governance	101	0	0	101	22	123
Director of Environment & Transport	124	0	0	124	28	152
Director of Children & Family Services (N7)	38	0	1	39	9	48
Total	896	0	10	906	190	1,096

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

N1 – Revised employer's pension contribution rates in 2017/18.

N2 - The Director of Finance was appointed as Director of Corporate Resources from 30th March 2018 and retained S151 Officer responsibilities. The annualised salary for this post is £118k.

N3 - The Director (0.6 full time equivalent) left LCC in April 2018.

N4 - The Director left LCC in October 2017. The annualised salary for this post is £130k.

N5 - The new Director was appointed in October 2017. The annualised salary for this post is £118k.

N6 - Includes backdated pay for 2016/17 paid in 2017/18.

N7 - The Director left LCC in July 2016. An interim director has been employed via an agency.

Notes to the Accounts

- 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.

2016/17						2017/18						
Including Severance			Excluding Severance			Remuneration Band	Including Severance			Excluding Severance		
Schools	Non School	Number of Employees 2016/17	Schools	Non School	Number of Employees 2016/17		Schools	Non School	Number of Employees 2017/18	Schools	Non School	Number of Employees 2017/18
46	38	84	45	34	79	£50,000-£54,999	36	27	63	37	27	64
38	44	82	39	37	76	£55,000-£59,999	33	44	77	33	44	77
29	9	38	29	10	39	£60,000-£64,999	20	9	29	20	8	28
11	10	21	11	10	21	£65,000-£69,999	16	9	25	16	9	25
6	5	11	6	3	9	£70,000-£74,999	11	3	14	11	3	14
1	6	7	1	5	6	£75,000-£79,999	4	5	9	2	5	7
3	3	6	3	2	5	£80,000-£84,999	3	3	6	3	3	7
1	0	1	0	0	0	£85,000-£89,999	0	3	3	0	2	2
0	7	7	0	7	7	£90,000-£94,999	0	4	4	0	4	4
0	0	0	0	0	0	£95,000-£99,999	0	1	1	0	1	1
0	1	1	0	1	1	£100,000-£104,999	0	0	0	0	0	0
0	1	1	0	1	1	£105,000-£109,999	0	0	0	0	0	0
0	0	0	0	0	0	£110,000-£114,999	0	1	1	0	1	1
0	0	0	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	1	1	0	0	0	£125,000-£129,999	0	0	0	0	0	0
135	125	260	134	110	244	Total	123	109	232	122	107	229

Notes to the Accounts

- 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	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17 £m	2017/18 £m
£0 - £20,000	59	81	76	15	135	96	1.1	0.7
£20,001 - £40,000	13	10	13	6	26	16	0.8	0.5
£40,001 - £60,000	2	3	1	2	3	5	0.2	0.3
£60,001 - £80,000	1	0	4	0	5	0	0.3	0.0
£80,001 - £100,000	0	0	0	1	0	1	0.0	0.1
£100,001 - £150,000	0	1	1	0	1	1	0.1	0.1
Total	75	95	95	24	170	119	2.5	1.7

i) The above table includes accrued liabilities. See note 44 for further details

ii) The numbers of officers shown are the actual number, not full time equivalents.

Note 35: Members' Allowances

Amounts were paid to members of the Authority as follows:

2016/17 £m		2017/18 £m
0.7	Basic Allowance	0.6
0.3	Special Responsibility Allowance	0.3
0.1	Other Expenses	0.1
1.1	Total	1.0

Note 36: External Audit Costs

2016/17 Restated £		2017/18 £
	<i>Fees payable to external auditor:</i>	
76,950	▪ Annual audit	76,950
3,000	▪ Certification of grant claims *	0
2,500	▪ Certification of other returns	2,500
3,672	▪ Additional audit fee	0
86,122	Total	79,450

* Grant claims continue to be accounted for on the basis of actual payments in year, rather than an estimation of costs relating to 2017/18 grant claims.

Note 37: Dedicated Schools Grant

The Authority's expenditure on schools is funded by grant monies provided by the Education and Skills 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 and Early Years Finance (England) Regulations 2017. 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 2017/18 are as follows:

2016/17			Schools Budget Funded by DSG	2017/18		
£m	£m	£m		£m	£m	£m
Central Exp	Individual Schools Budget	Total		Central Exp	Individual Schools Budget	Total
		(445.1)	Final DSG Before Academy Recoupment			(462.5)
		267.0	Academy Figure Recouped			282.6
		(178.1)	Total DSG after Academy recoupment			(179.9)
		(5.3)	Brought Forward from Previous Year			(2.8)
		0.0	Carry Forward Agreed in Advance			0.0
(83.5)	(99.9)	(183.4)	Agreed Initial Budgeted Distribution	(93.7)	(89.0)	(182.7)
0.0	0.0	0.0	In Year Adjustments	0.0	0.0	0.0
(83.5)	(99.9)	(183.4)	Final Budgeted Distribution	(93.7)	(89.0)	(182.7)
80.8	0.0	80.8	Actual Central Expenditure	91.7	0.0	91.7
0.0	99.8	99.8	Actual ISB Deployed to Schools	0.0	88.8	88.8
0.0	0.0	0.0	Local Authority Contribution	0.0	0.0	0.0
(2.7)	(0.1)	(2.8)	Carry Forward	(2.0)	(0.2)	(2.2)

Note 38: Grant Income

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

(i) Credited to the Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement.

2016/17 £m		2017/18 £m
	Revenue:	
37.0	Revenue Support Grant (RSG)	19.6
3.3	RSG Transition Grant	3.3
3.6	Education Services Grant	0.7
4.3	New Homes Bonus Scheme Grant	4.0
0.0	Adult Social Care General Grant	2.4
0.4	Local Support Services Grant	0.4
48.6		30.4
	Capital:	
	<i>Department for Education:</i>	
9.0	Basic Need	6.5
3.1	Maintenance	2.8
	<i>Department for Transport:</i>	
13.0	Local Transport Plan - Maintenance	11.8
2.7	Local Transport Plan – Integrated Transport Schemes	2.7
0.0	National Productivity Incentive Element	2.7
0.0	Pothole Grant	1.3
0.0	Flood Resilience Fund	1.2
0.0	Maintenance Incentive Element	1.1
3.0	LED – Street Lighting Project	0.0
	<i>Department of Health</i>	
1.3	Community Capacity Grant	0.0
1.7	Disabled Facilities Grant	3.3
9.8	<i>Leicester and Leicestershire Enterprise Partnership</i>	0.7
7.9	<i>Section 106 Housing Developer Contributions</i>	1.9
9.7	<i>Other Capital Contributions (below £1m at 31 March 2018)</i>	3.0
61.2		39.0
109.8	Total (Note 15 non ring-fenced government grants and capital grants and contributions)	69.4

(ii) Credited to gross income within the Continuing Services section of the Comprehensive Income and Expenditure Statement

2016/17 £m		2017/18 £m
	<i>Children and Family Services – Education:</i>	
178.1	Dedicated Schools Grant	181.8
6.6	Pupil Premium Grant	5.7
4.2	Universal Infant Free School Meals	3.9
1.6	6th Form Funding	1.6
1.1	PE & Sports Grant	1.5
0.0	Troubled Families Programme	1.4
1.4	Music Grant	0.0
193.0		195.9
	<i>Adults and Communities – Dept of Health:</i>	
0.0	Improved Better Care Fund	9.5
4.4	Skills Funding Agency	4.7
1.3	Independent living Fund	1.2
5.7		15.4
	<i>Public Health</i>	
26.2	Public Health Grant	25.5
	<i>Environment & Transport</i>	
0.0	Melton Eastern Distributor Road	1.9
	<i>Corporate Resources</i>	
0.0	Music Grant	1.4
23.9	Other income (below £1m at 31 March 2018)	16.6
248.8	Total	256.7

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 2017 £m		31 March 2018 £m
	Dept for Education:	
0.7	Early Years Capital Fund Grant	0.0
	Dept for Transport:	
0.6	Pothole Grant	0.0
1.1	Section 106 Housing Developer Contributions	0.9
0.1	Other Grants and Contributions	0.2
2.5	Total	1.1

Long-Term Capital Grants Receipts in Advance:

Notes to the Accounts

31 March 2017 £m		31 March 2018 £m
13.9	Section 106 Housing Developer Contributions	17.2
0.1	Land Reclamation Grant	0.0
0.0	Other Grants and Contributions	0.1
14.0	Total	17.3

Note 39: Related Parties

Details of the total Government grants received are shown in Notes 15 and 38. The employers' contribution paid to the Pension Fund is shown in Note 16. Interests in consortia and other organisations are disclosed in Note 40. Details of the related party transactions with the Eastern Shires Purchasing Organisation (ESPO) are included within Note 40.

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 38. Grant receipts outstanding at 31 March are also shown in Note 38.

Members

Members of Leicestershire County Council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in Note 35. During 2017/18, works and services to the total value of £0.7m (2016/17 £0.3m) were commissioned from companies, in which four members 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 £0.2m (2016/17, £0.3m), in which 2 members (2016/17, 10 members) have an interest. In addition, payments totalling less than £0.1m have been made during 2017/18 (2016/17, less than £0.1m) to organisations, in which 5 members had a position on the governing body (2016/17, 1 member). Payments totalling less than £0.1m have been made to organisations whose senior management includes members of the family of 1 member. 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.leicestershire.gov.uk

Officers

During 2017/18, works and services to the value of less than £0.1m were procured through the East Midlands Lawshare Framework (2016/17 £0.4m), 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 2017/18 works and services to the value of less than £0.1m (2016/17 £0.4m) were purchased from organisations in which one senior officer have declared an interest (2016/17 two senior officers). 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 three 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 33.

Entities Controlled or Significantly Influenced by Leicestershire County Councila) 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, Leicester City Council, the Combined Fire Authority and all the Leicestershire District Councils have agreed to operate a pooling agreement for business rates levies and safety net payments, the Leicester and Leicestershire Pool (LLP).

The Authority is the lead authority for the LLP.

A summary of the position for 2017/18 is shown below which shows an overall surplus on the Pool of £6.1m.

2017/18	Funding Baseline £m	Rates Baseline £m	Retained Rates £m	Levy £m	Safety Net £m
Blaby	2.1	15.7	17.1	0.7	0.0
Charnwood	4.0	18.3	19.3	0.5	0.0
Harborough	1.7	14.4	15.8	0.7	0.0
Hinckley & Bosworth	2.4	11.4	13.6	1.1	0.0
Melton	1.2	5.3	6.0	0.4	0.0
NW Leicestershire	2.2	19.3	24.3	2.5	0.0
Oadby & Wigston	1.4	4.9	5.3	0.2	0.0
Total	15.0	89.3	101.4	6.1	0.0
2017/18 Net Gain					6.1
Net Gain b/f					6.4
Less payment made to the LLEP during 2017/18					(4.4)

Total 31 March 2018					8.1
2016/17	Funding Baseline £m	Rates Baseline £m	Retained Rates £m	Levy £m	Safety Net £m
Blaby	2.1	16.0	17.8	0.9	0.0
Charnwood	3.9	18.0	18.8	0.4	0.0
Harborough	1.6	13.6	16.4	1.4	0.0
Hinckley & Bosworth	2.4	11.4	13.2	0.9	0.0
Melton	1.2	5.2	5.8	0.3	0.0
NW Leicestershire	2.2	19.2	21.4	1.1	0.0
Oadby & Wigston	1.4	5.0	5.0	0.0	0.0
Total	14.8	88.4	98.4	5.0	0.0
2016/17 Net Gain					5.0
Net Gain b/f					3.4
Less payment made to the LLEP during 2016/17					(2.0)
Total 31 March 2017					6.4

The total of £8.1m held as at 31 March 2018 comprises a £2.0m contingency towards future Pools, with the balance of £6.1m for investment in the wider Leicestershire area and is shown as a creditor in the Authority's accounts (£4.4m was transferred to the Leicester and Leicestershire Economic Partnership (LLEP) during 2017/18). The contingency is shown in the Authority's accounts as a receipt in advance; £1.4m held on behalf of the Pool members and the balance of £0.6m, 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:

2016/17 £m		2017/18 £m
(8.7)	Income	(8.9)
13.8	Expenditure	13.9
5.1	Net Cost	5.0

Note 40: 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. The Authority had an outstanding creditor balance of less than £0.1m (2016/17 £0.2m) and an outstanding debtor balance of £0.3m as at 31 March 2018 (2016/17 £0.3m).

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 2018 is £6.3m (2016/17 £6.8m).

The Authority in effect owns approximately one sixth of ESPO assets and liabilities, which in 2016/17 were net liabilities of £0.2m. 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. Details of the 2017/18 accounts are not yet available.

b) Leicester, Leicestershire and Rutland Combined Fire Authority

The Authority is a constituent member of Leicester, Leicestershire and Rutland Combined Fire Authority. The Authority received £0.7m of income during 2017/18 from Leicester, Leicestershire and Rutland Combined Fire Authority (2016/17 £0.4m). The Authority had an outstanding debtor balance of £0.2m as at 31 March 2018 (2016/17 £0.1m).

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 net costs for the Authority of 42.59%. EMSS does not separately own any assets or liabilities.

A summary of the income and expenditure of EMSS and the associated amounts included in the Authority's accounts are as follows:

Total EMSS 2016/17 £m	Amounts Included in LCC CIES 2016/17 £m		Total EMSS 2017/18 £m	Amounts Included in LCC CIES 2017/18 £m
		Income:		
(1.4)	(1.4)	Direct external income - LCC	(1.4)	(1.4)
(0.6)	0.0	Direct external income - NCC	(0.6)	0.0
0.0	(2.8)	NCC share of net LCC direct costs	0.0	(2.8)
(2.0)	(4.2)	Total Income	(2.0)	(4.2)
		Expenditure:		
6.3	6.0	Direct costs incurred by LCC	6.3	6.0
0.3	0.0	Direct costs incurred by NCC	0.2	0.0
6.6	6.0	Total Expenditure	6.5	6.0
4.6	1.8	Net Expenditure	4.5	1.8

d) Centre of Excellence for Information Sharing

The Centre of Excellence for Information Sharing is a national collaboration, funded by multiple government departments and other public sector organisations, to achieve better outcomes for users of public services as a direct result of improved information sharing between agencies and local places. It is hosted by Leicestershire County Council, and has a team of people from across national and local organisations. The Centre of Excellence will close at the end of June 2018.

Income and Expenditure

2016/17		2017/18	
£m		£m	
(0.6)	Income	(0.7)	
(0.6)	Transfer (from) / to Reserve	(0.2)	
1.2	Expenditure	0.9	
0.0	(Surplus)/Deficit	0.0	

e) Leicestershire & Rutland Sports Partnership

Leicester-Shire and Rutland Sport (LRS) is a County Sports Partnership (CSP) which works with the Local Authorities of Leicestershire, Leicester and Rutland working together with schools, National Governing Bodies of Sport, clubs, coaches and volunteers to create a lasting legacy for sport and physical activity. The CSP is funded from different sources including Leicestershire County Council LCC Public Health and Sport England. LCC is the host Authority and LRS accounts form a part of the overall Public Health budget. A summary of the income and expenditure specific to LRS follows:

2016/17	Income and Expenditure Category	Sport England	Local Authority	Other Public Sector Income	Non-public Income	2017/18
£m		£m	£m	£m	£m	£m
	Income:					
(2.3)	Revenue Grants	(0.6)	(1.6)	0.0	0.0	(2.2)
0.0	Membership Income	0.0	0.0	0.0	0.0	0.0
0.0	Sponsorship Income	0.0	0.0	0.0	0.0	0.0
(0.2)	Other Income	0.0	0.0	(0.2)	0.0	(0.2)
(0.1)	Enterprise & Innovation	0.0	0.0	0.0	(0.1)	(0.1)
(2.6)	Total Income	(0.6)	(1.6)	(0.2)	(0.1)	(2.5)
	Expenditure:					
0.9	Support costs	0.4	0.4	0.0	0.0	0.8
0.4	Overheads	0.0	0.4	0.0	0.0	0.4
0.9	Get Active	0.1	0.6	0.1	0.0	0.8
0.2	Stay Active	0.1	0.0	0.0	0.0	0.1
0.0	Active Economy	0.0	0.0	0.0	0.0	0.0
0.0	Well Led	0.0	0.0	0.0	0.0	0.0
0.2	Workforce	0.0	0.2	0.0	0.0	0.2
0.0	MarComms	0.0	0.0	0.0	0.0	0.0
0.0	Enterprise & Innovation	0.0	0.0	0.0	0.0	0.0
2.6	Total Expenditure	0.6	1.6	0.1	0.0	2.3
0.0	Net	0.0	0.0	(0.1)	(0.1)	(0.2)
0.0	Earmarked Deferred project Expenditure					0.2

Note 41: 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.

2016/17 £m		2017/18 £m
283.6	Opening Capital Financing Requirement	267.7
	Capital Investment:	
73.1	Property, Plant and Equipment	72.8
0.9	Intangible Assets	0.6
24.7	Revenue Expenditure funded from Capital under Statute	20.4
5.0	Long Term Investments – Available for Sale (N1)	0.0
	Sources of Finance:	
(22.7)	Capital Receipts	(14.8)
(67.3)	Government grants and other contributions	(54.0)
(13.8)	Direct revenue contributions	(25.0)
(11.3)	Statutory Minimum Revenue Provision (N2)	(10.8)
(4.5)	Additional (Voluntary) Minimum Revenue Provision (N3)	(0.0)
267.7	Closing Capital Financing Requirement	256.9
	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 2016/17 the County Council purchased £5m 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 2016/17 the County Council made an additional MRP contribution of £4.5m, funded from revenue and reserve balances, to reduce the capital financing requirement. This reduces the need to borrow, saving future capital financing costs.

Note 42: Leases

a) Amounts Paid to Lessors

Finance lease rentals paid to lessors in the year totalled £0.3m (2016/17 £0.3m). Lease rentals paid to lessors during the year in respect of operating leases for vehicles and equipment totalled £1.2 (2016/17 £0.8m).

Notes to the Accounts

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 (2016/17 £1.6m). Expected Lease rentals projected to be received in 2018/19 is £1.5m. During 2017/18 18 schools transferred to Academy Status resulting in the net book value of the schools, £8.9m being written out of the Authority's Balance Sheet as these have been transferred on 125 year finance lease terms (2016/17 14 schools, £15m). 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 2018/19 and beyond. The comparators in 2016/17 for 2017/18 and beyond are as follows:

2016/17				2017/18				
Finance Lease Principal (NPV) £m	Finance Cost £m	Finance Leases Total £m	Operating Leases £m		Finance Lease Principal (NPV) £m	Finance Cost £m	Finance Leases Total £m	Operating Leases £m
0.0	0.2	0.2	0.4	Lease Payments due:				
				Within 1 year	0.1	0.2	0.3	0.8
0.3	0.8	1.1	0.6	2 to 5 years	0.3	0.8	1.1	1.3
1.1	3.8	4.9	0.0	Over 5 years	0.9	3.5	4.4	0.0
1.4	4.8	6.2	1.0	Total	1.3	4.5	5.8	2.1

Finance Leased Assets have a carrying value within Land and Buildings within Property, Plant and Equipment of £0.9m as at 31 March 2018 (31 March 2017 £0.9m).

Note 43: Impairment Losses

During 2017/18, the Authority has not recognised any impairment losses (2016/17 nil). However, revaluations downwards of £25.9m have been recognised in the Revaluation Reserve and revaluations downwards of £19.5m have been recognised in the Comprehensive Income and Expenditure Statement. There have also been reversal of historical downwards revaluations of £2.7m to the revaluations reserve and £0.8m in the Comprehensive Income and Expenditure Statement.

Note 44: 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 2017/18 are £1.7m (2016/17 £2.5m).

Details of actual and accrued benefits are shown below:

- Actual Benefits**

Notes to the Accounts

Number of Officers Schools	2016/17		Department:	2017/18		
	Number of Officers Non-Schools	Amount (£m)		Number of Officers Schools	Number of Officers Non-Schools	Amount (£m)
7	26	0.4	Children & Family Services	15	4	0.3
0	9	0.2	Environment & Transport	0	12	0.2
0	70	1.0	Adults & Communities	0	13	0.3
0	14	0.2	Corporate Resources	0	17	0.3
0	2	0.0	Chief Executive's	0	4	0.0
0	3	0.1	Public Health	0	0	0.0
7	124	1.9	Total	15	50	1.1

▪ **Accrued Benefits**

Number of Officers Schools	2016/17		Department:	2017/18		
	Number of Officers Non-Schools	Amount (£m)		Number of Officers Schools	Number of Officers Non-Schools	Amount (£m)
21	3	0.3	Children & Family Services	12	9	0.3
0	0	0.0	Environment & Transport	0	1	0.0
0	15	0.3	Adults & Communities	0	26	0.2
0	0	0.0	Corporate Resources	0	5	0.1
0	0	0.0	Chief Executive's	0	1	0.0
0	0	0.0	Public Health	0	0	0.0
21	18	0.6	Total	12	42	0.6

Note 45: 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 2017 shows overall estimated net assets of £7.2m. As a result the scheme administrators do not intend to request any additional contributions.

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) Projects that have been awarded European grant funds and 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 46: 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 policies 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 Link 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 Link Asset Services assessment of their overall financial strength. The Authority will only lend for a maximum of one year (Link Asset Services 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 Link Asset Services 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 Link list for period of 1 year or more	Not 'special instructions' and included in Link list for period of 1 year or more	Included in Link 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 Link list for period of 1 year or more	Included in Link 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)

Other UK Local Authorities

A maximum of £10m can be invested per authority for up to 1 year.

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 2018 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 31 st March 2017	Historical experience of default	Historical experience adjusted for market conditions at 31 March 18	Estimated maximum exposure to default and uncollecta- bility	Amount at 31 st March 2018
	£m	%	%	£m	£m
Deposits with banks and financial institutions	205.8	0.0	0.0	0.0	190.0
Sales ledger	20.0	0.2	0.0	0.0	20.7
Total	225.8				210.7

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:

2016/17 £m		2017/18 £m
14.2	Less than three months	15.1
1.7	Three to six months	1.5
1.1	Six months to one year	1.5
3.0	More than one year	2.6
20.0	Total	20.7

In respect of the above sales ledger debt, the Authority has made a provision of £2.0m for potential doubtful debts.

(ii) Liquidity risk

The Authority has a record of expected cash flows which is used 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 2017		31 March 2018
£m		£m
	Analysis of Loan Maturity Profile:	
13.4	Less than 1 year	3.7
13.4	Total Short Term Loans by Maturity	3.7
1.0	Between 1 and 2 years	1.0
1.7	Between 2 and 5 years	1.7
7.5	Between 5 and 10 years	7.5
1.5	Between 10 and 15 years	1.1
0.3	Between 15 and 20 years	0.3
0.4	Between 20 and 25 years	0.4
17.9	Between 25 and 30 years	40.0
48.1	Between 30 and 35 years	82.0
105.9	Between 35 and 40 years	79.3
29.6	Between 40 and 45 years	0.1
53.6	Greater than 45 years	53.6
267.5	Total Long Term Loans by Maturity	267.0
280.9	Total Loans by Maturity	270.7

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 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 2018, 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	2.6
Increase in government grant receivable for financing costs	0.0
Impact on Surplus or Deficit on the Provision of Services	2.6
Decrease in fair value of fixed rate investment assets	(6.5)
Impact on Other Comprehensive Income and Expenditure	(6.5)
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)	(82.6)

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 47: 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	375,000
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 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. 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:

	Balance at 31 March 2017 £m	Income £m	Expenditure £m	Balance at 31 March 2018 £m
Trust Funds:				
Kibworth High School Endowment	0.3	0.0	0.0	0.3
Bradgate Park & Swithland Wood Charity *	0.8	1.4	(1.3)	0.9
Others	0.3	0.0	0.0	0.3
Total Trust Funds	1.4	1.4	(1.3)	1.5

* 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 2017/18 financial year and its position at the year-end of 31 March 2018. 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 (the 'Code') in the UK 2017/18 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government 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 when the Authority has an 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. Reserves are created by transferring amounts out of the General Fund Balance. 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 transferred 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 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 Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

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 2017. 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. 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.

School assets, where appropriate, 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 result in a debit being posted to the non-current asset account and 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 is 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 of 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.

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 exception to this policy is in relation to provisions for doubtful debts that are maintained for certain categories of income by individual departments.

13. Government Grants

Whether paid on account, by 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 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.

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 or 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 on an accruals basis in the Comprehensive Income and Expenditure Statement against the appropriate service 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 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 and Family 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 for current employees.

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.
- *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 whose existence 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 whose 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 act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors and, as principals, collecting council tax and NDR for themselves. Billing Authorities are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and NDR income. Under the legislative framework all parties to the collection fund share proportionately the risks and rewards that the amount of council tax and NDR collected could be less than or more than predicted.

The council tax and NDR 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 NDR) and in turn credited to their General Fund.

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 NDR income is in substance an agency arrangement, the cash collected by the billing authority from council tax and NDR debtors belongs proportionally to the billing authority and the major preceptors (and Central Government for NDR). 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 of the arrangement 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. Fair Value Measurement

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 or by selling it to another market participant that would use 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, as follows:

Level 1 - unadjusted quoted prices in active markets for identical assets of liabilities that the Authority can access at the measurement date.

Level 2 - inputs other than quoted prices in active markets included in level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - unobservable inputs for the asset or liability.

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 Corporate Resources.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts.

MR. J.B. RHODES

CABINET LEAD MEMBER FOR CORPORATE RESOURCES AND DEPUTY LEADER OF THE COUNTY COUNCIL

27 JULY 2018

THE DIRECTOR OF CORPORATE RESOURCES RESPONSIBILITIES

The Director of Corporate Resources 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 Corporate Resources has:

- Selected suitable accounting policies and then applied them consistently,
- Made judgements and estimates that were reasonable and prudent,
- Complied with the Local Authority Code,
- 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 2018.

C TAMBINI

DIRECTOR OF CORPORATE RESOURCES

27 JULY 2018

Pension Fund

(Registration number: 00328856RQ)

Introduction

- 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 33,638 contributors to the Fund as at 31 March 2018.

- Actuarial Position:
 - 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 2016. The change in contribution rates resulting from the actuarial valuation as at 31 March 2016 was effective from 1 April 2017 and for many employers there will be phased increases covering the period 1 April 2017 to 31 March 2020.

- 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.
- The 2016 valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,164m, were sufficient to meet approximately 76.2% of the liabilities accrued up to that date. Assets were valued at their market value.
- 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.
- The key financial assumptions adopted for the 2016 valuation were as follows:

Financial Assumptions	31 Mar 2016
Pension Increase Rate	2.1%
Salary Increase Rate	3.2%
Discount Rate	4.0%

- On an annual basis the fund's actuary also calculates the actuarial present value of promised retirement benefits in accordance with IAS 19. This involves the Actuary rolling forward the value of the Employers liabilities calculated for the triennial valuation as at 31 March 2016 allowing for the

Pension Fund Accounts

different financial assumptions required by IAS19. The assumptions used for the purposes of the IAS19 calculations are as follows:

	31 March 17	31 March 18
Pension Increases	2.4%	2.4%
Salary Increases	3.4%	3.4%
Discount Rate	2.6%	2.7%

The net liability under IAS19 is shown below:

	31 March 17 £m	31 March 18 £m
Present Value of funded obligation	5,987	6,141
Net Scheme Assets	3,881	4,084
Net Liability	2,106	2,057

These figures are presented only for the purposes of IAS19. In particular, they are not relevant for calculations undertaken for funding purposes.

3. In 2017/18 the average employer rate was 22.7% of pay (21.8% 2016/17).
4. The County Council has delegated the management of the Fund to its local Pension Committee, 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 Universities. The Board receives investment advice from Hymans Robertson LLP and meets quarterly to consider relevant issues.
5. List of admitted and scheduled bodies (with active membership):

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, Loughborough University, Melton Borough Council, North West Leicestershire District Council, Oadby & Wigston Borough Council, Rutland County Council.

Schools consisting of: Apollo Partnership Trust, Asfordby Hill, Ashby Hill Top, Ashby School, Ash Field Academy, Barwell C of E, Battling Brook, Beacon Academy, Birkett House, Blessed Cyprian Tansi MAT, Bottesford, Bradgate Education Partnership, Brockington, Brocks Hill, Brooke Hill, Brookvale Groby Learning Trust, Broom Leys, Casterton Business and Enterprise College, Castle Donington College, Church Hill Junior, Cobden, Corpus Christi MAT, Cottesmore Primary, Countesthorpe Leysland Community College, David Ross Education Trust, Diocese of Leicester Academy Trust, Discovery Schools, Dorothy Goodman, Falcon Primary School, Forest Way, Frisby, Gartree, Hall Orchard, Hastings High, Hinckley Academy, Holywell, Humphrey Perkins, Huncote, Ibstock Community College, Inspiring Primaries Academy Trust, Ivanhoe College, Ivanhoe under 5s, The Kibworth School, L.E.A.D. Academy Trust, King Edward VII, Kirby Muxloe, Krishna Avanti Free School, Lady Jane Grey, Launde, Learn Academies Trust, Learning Without Limits Academy Trust, LiFE Academy Trust, Limehurst, Lionheart Academies Trust, Long Field, Loughborough C of E Primary, Lutterworth Academies Trust, Lutterworth High, Market Bosworth High, Martin High, Measham, Mercenfeld, Midland Academies Trust, Mountfields Lodge, Mowbray Education Trust, Nova Ed Trust (melton Vale), OAK Multi Academy Trust, Odyssey Educational Trust, Old Dalby, Outwoods Edge, Oval Learning Trust, OWLS Academy Trust, The Pastures, Queensmead, Queniborough, Ratby, Rawlins, Red Hill Field, Redmoor, Rendell, Robert Bakewell, Robert Smyth, Rothley, Rushey Mead Educational Trust, Rutland & District Schools' Federation, Rutland Learning Trust, Ryhall, St Dominics Catholic MAT, St. Gilbert of Sempringham, St. Michael & All Angels, St Peters C of E, South Charnwood, South Wigston High, Stafford Leys, Stanton under Bardon, Stephenson Studio School, Stonebow, Success Academy Trust, Symphony Learning Trust, The Priory Academy Trust Belvoir Academy, Thringstone, Thrussington, Townlands, Tudor Grange, Uppingham Community College, Welland Park, Wigston Academies Trust, Woodbrook Vale, Wreake Valley.

Colleges consisting of Brooksby Melton College, Gateway Sixth Form College, Leicester College, Loughborough College, WQE and Regent College Group, South Leicestershire College, Stephenson College.

Pension Fund Accounts

Other employers consisting of: ABM Catering, Aspens Services, Bradgate Park Trust, Capita Business Services, Capita Managed IT Solutions, Caterlink, Chartwells, CSE Ltd, East Midlands Shared Services, East West Community Project, Eastern Shires Purchasing Organisation, EMH Homes, Fusion Lifestyle, Future Cleaning Services, G4S, G Purchase, MCS Cleaning, Melton Learning Hub, Pinnacle Group, Prospect Services, Quadron Services, Rushcliffe Care, Seven Locks Housing, SLM Community Leisure, Solo Service Group, Spire Homes, Turning Point, Voluntary Action Leicester.

Parish and Town Councils consisting of: Anstey PC, Ashby TC, Ashby Woulds TC, Bagworth & Thornton PC, Barrow Upon Soar PC, Barwell PC, Blaby PC, Braunstone TC, Broughton Astley PC, Countesthorpe PC, East Goscote PC, Enderby PC, Glen Parva PC, Groby PC, Kirby Muxloe PC, Leicester Forest East PC, Lutterworth TC, Market Bosworth PC, Mountsorrell PC, Oakthorpe, Donisthorpe & Acresford PC, Shepshed TC, Sileby PC, Syston TC, Thurcaston & Cropston PC, Thurmaston PC, Twycross PC, Whetstone PC.

Fund Account for the Year Ended 31 March 2018

2016/17 £m		Notes	2017/18 £m
	Contributions		
131.9	Employer Contributions	3	139.2
37.6	Member Contributions	3	38.3
8.7	Transfers in from Other Pension Funds	4	15.9
	Benefits		
(108.9)	Pensions	5	(115.0)
(30.6)	Commutation of Pensions and Lump Sum Retirement Benefits	5	(31.8)
(3.6)	Lump Sum Death Benefits		(3.1)
(11.9)	Payments to and on Account of Leavers	6	(21.5)
23.2	Net Additions)/(Withdrawals) from Dealings with Members		22.0
(6.0)	Management Expenses	7	(6.4)
17.2	Net Additions)/(Withdrawals) Including Fund Management Expenses		15.6
	Returns on investments		
37.5	Investment income	8	42.9
662.2	Profit and Losses on Disposal of Investments and Changes in Value of Investments	9	144.0
699.7	Net Returns on Investments (Sub Total)		186.9
716.9	Net Increase / (Decrease) in the Net Assets Available for Benefits fund During the Year		202.5
3,163.9	Net assets of the scheme At 1 April		3,880.8
3,880.8	Net assets of the scheme At 31 March		4,083.3

Net Assets Statement as at 31 March 2018

2016/17 £m		Notes	2017/18 £m
3,876.3	Investment assets	9	4,076.1
(3.7)	Investment liabilities	9	(1.2)
3,872.6			4,074.9
11.4	Current Assets	12	11.7
(3.2)	Current Liabilities	12	(3.3)
3,880.8	Net Assets of the Fund at 31 March		4,083.3

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 95 to 114 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 2017/18 financial year and its position at year-end as at 31st March 2018. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 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 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

2016/17 £m		2017/18 £m
	Employers	
126.5	Normal	134.5
0.1	Voluntary additional	0.1
4.2	Advanced payments for early retirements	3.9
1.1	Additional payments for ill-health retirements	0.7
	Members	
37.2	Normal	37.9
0.4	Purchase of additional benefits	0.4
169.5	Total	177.5

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 generally paid by the insurance company, where the employer has taken out ill-health insurance and the claim has been accepted as valid. On occasions employers without ill-health insurance are charged for at least part of the ill-health costs. 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:

2016/17 £m		2017/18 £m
42.8	Leicestershire County Council	42.4
118.8	Scheduled bodies	126.4
7.9	Admitted bodies	8.7
169.5	Total	177.5

Pension Fund Accounts

4. *Transfers In*

2016/17 £m		2017/18 £m
8.7	Individual transfers in from other schemes	13.2
0.0	Bulk transfers in from other schemes	2.7
8.7	Total	15.9

5. *Benefits*

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

2016/17 £m		2017/18 £m
52.2	Leicestershire County Council	53.6
80.8	Scheduled bodies	86.0
10.1	Admitted bodies	10.3
143.1	Total	149.9

6. *Payments to and on Account of Leavers*

2016/17 £m		2017/18 £m
0.7	Refunds to members leaving the scheme	0.8
0.2	Payments for members joining state scheme	0.1
11.0	Individual transfers to other schemes	20.6
0.0	Bulk transfers to other schemes	0.0
11.9	Total	21.5

7. *Management Expenses*

2016/17 £m		2017/18 £m
4.6	Investment Management Expenses	4.9
1.1	Pension Scheme Administration Costs	1.1
0.3	Oversight and Governance Expenses	0.4
6.0	Total	6.4

Pension Fund Accounts

2016/17 £m		2017/18 £m
0.0	Income from fixed interest securities	0.0
2.2	Dividends from equities	2.9
0.1	Income from Government Bonds	0.0
1.8	Income from index-linked securities	2.2
25.2	Income from pooled investment vehicles	30.9
7.3	Net rents from properties	7.0
0.3	Interest on cash or cash equivalents	0.3
0.6	Net Currency Profit / (Loss)	(0.5)
0.0	Securities Lending Commission	0.0
0.0	Insurance Commission	0.1
37.5	Total	42.9

9. Investments

	Value at 1 April 2017 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change In Market Value £m	Value at 31 March 2018 £m
Equities	77.5	47.0	(43.8)	(0.4)	80.3
Government Bonds	0.0	0.7	0.0	0.0	0.7
Index-linked securities	373.3	289.7	(275.9)	(2.9)	384.2
Pooled investment vehicles	3,070.1	365.6	(184.9)	81.2	3,332.0
Properties	96.3	0.1	(0.1)	5.8	102.1
Cash and currency	238.1	0.0	(80.5)	0.0	157.6
Derivatives contracts	15.6	6.7	(67.7)	60.3	14.9
Other investment balances	1.7	1.4	0.0	0.0	3.1
Total	3,872.6	711.2	(652.9)	144.0	4,074.9

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 £270.410m in the Legal & General North America index fund (31/3/17, £267.804m) and £260.370m in the Legal & General FTSE RAFI North America fund (31/3/17, £261.991m) that exceed 5% of the total value of net assets.

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

Pension Fund Accounts

£m		£m
	Equities	
24.6	UK quoted	23.2
0.0	UK unquoted	1.3
52.9	Overseas quoted	55.8
77.5		80.3
	Government Bonds	
0.0	UK Government Unquoted	0.7
	Index Linked Securities	
331.8	UK quoted	347.1
41.4	Overseas quoted	37.0
373.2		384.1
	Pooled investment vehicles (unquoted)	
223.0	Property funds	262.6
142.7	Private equity	152.5
337.9	Bond and debt funds	468.3
0.6	Hedge funds	0.3
1,876.7	Equity-based funds	1,887.2
9.8	Commodity-based funds	12.1
80.4	Timberland fund	91.4
124.8	Managed futures fund	142.1
96.2	Targeted return fund	119.9
178.1	Infrastructure fund	195.6
3,070.2		3,332.0
	Properties	
96.3	UK (Note 11)	102.1
238.1	Cash and currency	157.6
	Derivatives contracts	
15.7	Forward foreign exchange assets	12.9
0.9	Currency option assets	0.1
2.7	Other option assets	3.1
(3.7)	Forward foreign exchange liabilities	(1.1)
0.0	Currency option liabilities	0.0
15.6	Sterling Denominated	15.0
1.7	Other Investment Balances	3.1
3,872.6	Total Investments	4,074.9

At 31 March 2018 pooled investment vehicles include investments in fund-of-funds which have an underlying value of £151.378m in private equity, £14.773m in illiquid corporate bonds and £91.384m 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

Pension Fund Accounts

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:

2016/17 £m		2017/18 £m
(0.8)	Active currency positions (those whose purpose is solely to seek economic gain)	0.3
12.7	Passive currency positions (those whose purpose is to hedge the Fund's benchmark exposure to currencies back to sterling)	11.4
11.9	Total	11.7

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:

2016/17 £m		2017/18 £m
0.9	Currency-based	0.1
2.7	Equity rate-based	3.1
3.6	Total	3.2

11. Property Investments

31 March 2017 £m		31 March 2018 £m
64.9	Freehold	71.3
16.1	Long Leasehold (over 50 years unexpired)	16.2
15.3	Medium/Short Leasehold (under 50 years unexpired)	14.6
96.3	Total	102.1

All properties 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 2018. 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.

12. Current Assets and Liabilities

2016/17 £m		2017/18 £m
8.5	Contributions due from employers	8.4
0.1	Cash Balances	1.0
1.3	Other Debtors	1.2
1.5	Due from Ministry of Justice	1.1
11.4	Current assets	11.7
(0.8)	Due to Leicestershire County Council	(1.2)
(0.9)	Fund Management Fees Outstanding	(0.9)
(1.5)	Other Creditors	(1.2)
(3.2)	Current liabilities	(3.3)
8.2	Net current assets and liabilities	8.4

Cont

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

Pension Fund Accounts

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, and at 31st March 2018 there were three more payments due.

13. 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 2017			At 31 March 2018	
£m	%		£m	%
		Investment Manager		
1,379.1	35.6	Legal & General	1,369.4	33.6
352.3	9.1	Kames Capital	391.4	9.6
243.2	6.3	Ruffer LLP	251.7	6.2
185.4	4.8	KBI (formerly Kleinwort Benson Investors)	187.1	4.6
172.0	4.4	Aviva Investors	190.8	4.7
156.4	4.0	Macquarie Investments	177.5	4.4
141.3	3.7	Adams Street Partners	144.0	3.5
136.3	3.5	Kempen Capital	132.3	3.2
124.8	3.2	Aspect Capital	142.1	3.5
116.8	3.0	Colliers Capital UK	126.3	3.1
107.2	2.8	Ashmore	103.9	2.6
106.0	2.7	Partners Group	199.4	4.9
96.5	2.5	JP Morgan Asset Management	104.0	2.6
96.2	2.5	Pictet Asset Management	119.9	2.9
87.0	2.2	Prudential / M&G	85.2	2.1
80.4	2.1	Stafford Timberland	91.4	2.2
59.7	1.6	Industry Funds Management	62.6	1.5
48.1	1.3	Kravis Kohlberg Roberts	52.0	1.3
0.0	0.0	Cristofferson, Robb & Co	40.4	1.0
0.0	0.0	Standard Life Aberdeen	7.3	0.2
0.0	0.0	Infracapital	3.9	0.1
1.4	0.0	Catapult Venture Managers	1.1	0.0
0.6	0.0	Permal (formerly Fauchier Partners)	0.4	0.0
181.9	4.7	Internally Managed and Currency Managers	90.8	2.2
3,872.6		Total	4,074.9	

14. 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.

15. *Operation and Management of fund*

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

16. *Employing bodies and fund members*

A full list of all bodies that have active members within the Fund is included on page 104.

17. *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.

Pension Fund Accounts

Values at 31 st March 2018	Quoted market price	Using observable inputs	With significant unobservable inputs	Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Financial assets at fair value	2,828.1	806.2	441.8	4,076.1
Financial liabilities at fair value	(1.2)			(1.2)
Net financial assets	2,826.9	806.2	441.8	4,074.9

Values at 31 st March 2017	Quoted market price	Using observable inputs	With significant unobservable inputs	Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Financial assets at fair value	2,843.6	631.0	401.7	3,876.3
Financial liabilities at fair value	(3.7)			(3.7)
Net financial assets	2,839.9	631.0	401.7	3,872.6

18. 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 Leicestershire County Council's Local Pension Committee (formerly called 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 2017/18 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):

Pension Fund Accounts

Asset type	Value at 31 st March 2018	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
UK equities	24.5	16	28.4	20.6
Overseas equities	55.8	19	66.4	45.2
UK Corporate Bonds	0.7	10	0.8	0.6
Global index-linked bonds	384.1	8	414.9	353.4
Pooled property funds	262.6	15	302.0	223.2
Pooled private equity funds	152.5	28	195.2	109.8
Pooled bond and debt funds	468.3	10	515.2	421.5
Pooled hedge funds	0.3	12	0.4	0.3
Pooled equity funds	1,887.2	19	2,245.7	1,528.6
Pooled commodity funds	12.1	14	13.7	10.4
Pooled targeted return funds	119.9	12	134.3	105.5
Pooled timberland fund	91.4	16	106.0	76.8
Pooled managed futures fund	142.1	12	159.2	125.1
Pooled infrastructure fund	195.6	14	223.0	168.2
UK property	102.1	15	117.4	86.8
Cash and currency	157.6	1	159.1	156.0
Options, futures, other investment balances, current assets and current liabilities	26.5	1	26.8	26.2
Total assets available to pay benefits	4,083.3		4,708.5	3,458.2

Asset type	Value at 31 st March 2017	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
UK equities	24.6	16	28.5	20.7
Overseas equities	53.0	19	63.0	42.9
UK Corporate Bonds	0.0	0	0.0	0.0
Global index-linked bonds	373.3	8	403.2	343.4
Pooled property funds	223.0	15	256.5	189.6
Pooled private equity funds	142.7	28	182.7	102.7
Pooled bond and debt funds	337.9	10	371.7	304.1
Pooled hedge funds	0.6	12	0.7	0.5
Pooled equity funds	1,876.7	19	2,233.3	1,520.1
Pooled commodity funds	9.8	14	11.2	8.4
Pooled targeted return funds	96.2	12	107.7	84.6
Pooled timberland fund	80.3	16	93.1	67.5
Pooled managed futures fund	124.8	12	139.8	109.8
Pooled infrastructure fund	178.1	14	203.0	153.2
UK property	96.3	15	110.7	81.9
Cash and currency	238.1	1	240.5	235.7
Options, futures, other investment balances, current assets and current liabilities	25.4	1	25.7	25.2
Total assets available to pay benefits	3,880.8		4,471.3	3,290.3

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These

Pension Fund Accounts

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 2018 and 31st March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

As at 31 st March 2017 £m	Asset type	As at 31 st March 2018 £m
238.1	Cash and Currency	157.6
337.9	Fixed interest securities	469.0
576.0	Total	626.6

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 31 st March 2018		
	£m	Change in year in the net assets available to pay benefits	
		+100 BPS £m	-100 BPS £m
Cash and Currency	157.6	1.6	(1.6)
Fixed interest securities	469.0	4.7	(4.7)
Total	626.6	6.3	(6.3)

Asset type	Carrying amount as at 31 st March 2017		
	£m	Change in year in the net assets available to pay benefits	
		+100 BPS £m	-100 BPS £m
Cash and Currency	238.1	2.4	(2.4)
Fixed interest securities	337.9	3.4	(3.4)
Total	576.0	5.8	(5.8)

Pension Fund Accounts

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 70% of the exposure back to sterling. The table below summarises the Fund's currency exposure if it was unhedged at as 31st March 2018 and as at the previous period end:

Asset value as at 31 st March 2017 £m	Currency exposure – asset type	Asset value as at 31 st March 2018 £m
52.9	Overseas equities	55.8
41.4	Overseas government index-linked bonds	37.0
141.3	Private equity pooled funds	151.4
0.6	Pooled hedge Funds	0.3
1,876.7	Overseas and Global equity-based pooled funds	1,577.9
9.8	Commodity-based pooled funds	12.1
178.1	Infrastructure pooled funds	195.6
80.4	Timberland pooled fund	91.4
107.2	Emerging Market Debt pooled fund	103.9
2,488.4	Total overseas assets	2,225.4

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:

Current exposure – asset type	Asset value as at 31 st March 2018	Change to net assets available to pay benefits	
	£m	+13% £m	-13% £m
Overseas equities	55.8	63.1	48.5
Overseas government index-linked bonds	37.0	41.8	32.2
Private equity pooled funds	151.4	171.1	131.7
Pooled hedge funds	0.3	0.3	0.3
Overseas equity-based pooled funds	1,577.9	1,783.0	1,372.8
Commodity-based pooled funds	12.1	13.6	10.4
Infrastructure pooled funds	195.6	221.0	170.2
Timberland pooled fund	91.4	103.3	79.5
Emerging Market Debt pooled fund	103.9	117.5	90.5
Total change in assets available	2,225.4	2,514.7	1,936.1

Pension Fund Accounts

At 31st March 2018 and 31st March 2017 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 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 31 st March 2018	Change to net assets available to pay benefits	
	£m	+2.5% £m	-2.5% £m
Active currency portfolios	340.0	348.5	331.5
Total change in assets available	340.0	348.5	331.5

Currency exposure – asset type	Asset value as at 31 st March 2017	Change to net assets available to pay benefits	
	£m	+2.5% £m	-2.5% £m
Active currency portfolios	340.0	348.5	331.5
Total change in assets available	340.0	348.5	331.5

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 a Standard Life 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 2018 was £157.6m (31st March 2017: £238.1m).

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 2018 the value of illiquid assets (considered to be the Fund's investments in property, hedge funds, private equity, timberland and infrastructure) was £804.5m, which represented 19.7% of total Fund assets. (31st March 2017: £721.1m, which represented 18.6% 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 2018 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

The Fund ceased to take part in securities lending activities towards the end of the financial year and there was no stock on loan at 31 March 2018

Income from stock lending for the part-year that it was undertaken amounted to £0.0m and is detailed in note 8 to the accounts.

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.

19. Related Party Transactions

Leicestershire County Council is the administering authority for the Local Government Pension Scheme (LGPS) within Leicestershire and is one of the major employers within the scheme. Information regarding key management personnel is provided within the main accounts of Leicestershire County Council. Members and officers of the Council involved in managing the Fund are allowed to be members of the LGPS. All transactions between Leicestershire County Council and the Fund and all benefit payments from the Fund are in accordance with the regulations governing the LGPS. There are no transactions therefore that are made on a different basis from those with non-related parties.

LGPS Central Ltd has been established to manage, on a pooled basis, investment assets of nine Local Government Pension Schemes across the Midlands. It is jointly owned in equal amounts by the eight Administering Authorities participating in the Pool.

No Services were provided by LGPS Central Ltd during 2017/18 as operations only commenced in April 2018.

£1.3m has been invested in the share capital and £0.7m in a corporate bond with LGPS Central Ltd during the year. These are the balances at the year end, and the assets are valued at the cost price.

£0.4m has been spent during 2017/18 by the Leicestershire Pension Fund on setting up LGPS Central Ltd. These costs were borne by West Midlands Pension fund and recharged equally to the Administering Authorities. It is expected that all set up costs recharged by West Midlands Pension Fund, including those incurred in the previous financial year, will be refunded to the Leicestershire Fund in 2018/19.

From the information currently available there were no other material transactions with related parties in 2017/18 that require disclosure under FRS8.

20. 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 £1.6m, 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.

21. Contractual Commitments

At 31st March 2018, the Fund had the following contractual commitments:-

- (i) Undrawn commitments totalling \$212,741.6 (£151,385.2) to thirty two different pooled private equity funds managed by Adams Street Partners (31st March 2017 £159,855.9 to thirty one different funds).
- (ii) An undrawn commitment of £0.5m to two private equity funds managed by Catapult Venture Managers (31st March 2017 £0.5m to two funds).
- (iii) An undrawn commitment of \$59.9m (£42.6m) to three KKR Global Infrastructure funds (31st March 2017 £17.8m to two funds)
- (iv) An undrawn commitment of £1.7m (£1.5m) to the Stafford International Timberland VI Fund (31st March 2017 £4.6m)
- (v) An undrawn commitment of \$61.6m (£43.8m) to two USD-denominated Stafford International Timberland funds (31st March 2017 £2.6m to one fund).
- (vi) An undrawn commitment of £40.0m to the M & G Debt Opportunities Fund IV (31st March 2017 £20.0m to M & G Debt Opportunities Fund III)
- (vii) An undrawn commitment of \$30.0m (£21.3m) to the IFM Global Infrastructure Fund (31st March 2017 £5.6m).
- (viii) An undrawn commitment of \$30.9m (£22.0m) to the SL Capital SOF III Fund (31st March 2016 £27.8m)
- (ix) An undrawn commitment of £18.2m to the Kames Active Value Property Unit Trust II.
- (x) An undrawn commitment of £26.9m to the Infracapital Greenfield Partners I Fund
- (xi) An undrawn commitment of \$20.0m (£14.2m) to the JPM Infrastructure Investment Fund.
- (xii) An undrawn commitment of £78.0m to the Partners 2018 Multi Asset Credit Fund.

22. 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 2017/18 £1.8m (2016/17 £1.8m) in contributions were paid to Prudential. At the year end the capital value of all AVC's was £14.1m (31.3.17, £14.2m).

23. Policy Statements

The Fund has a number of policy statements that are available on request from the Technical Accounting Team, Strategic Finance, Leicestershire County Council, County Hall, Glenfield, Leicester. LE3 8RB (email technical.accountingteam@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)

24. 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 2017/18 (or 2016/17). 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.

25. Pension Fund Accounts Reporting Requirement

Leicestershire County Council Pension Fund ("the Fund") Actuarial Statement for 2017/18

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

A. Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated January 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;

- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 66% chance that the Fund will return to full funding over 20 years.

B. Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme (Administration) Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,164 million, were sufficient to meet 76.2% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £989 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a specified time period as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

C. Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	3.2%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2013

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 as follows:

	Males	Females
Current Pensioners	22.1 years	24.3 years
Future Pensioners*	23.8 years	26.2 years

* Age 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

D. Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/17. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Barry McKay

Barry McKay FFA

For and on behalf of Hymans Robertson LLP, 20 Waterloo Street, Glasgow, G2 6DB

25 April 2018

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 Corporate Resources 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 Corporate Resources has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Local Authority Code.

The Director of Corporate Resources has also;

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

I 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 2018 and its income and expenditure for the year ended the same date.

C TAMBINI
DIRECTOR OF CORPORATE RESOURCES
27 JULY 2018

External Auditors Report

To follow upon completion of the audit, page 1 of 3.

External Auditors Report

To follow upon completion of the audit, page 2 of 3.

External Auditors Report

To follow upon completion of the audit, page 3 of 3.

Annual Governance Statement (AGS) 2017/18

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.

Regulations 6 (1)(a) and (b) of the Accounts and Audit Regulations 2015 requires each English local authority to conduct a review, at least once a year, of the effectiveness of its system of internal control and approve an annual governance statement (AGS), prepared in accordance with proper practices in relation to internal control. The preparation and publication of an AGS in accordance with the Framework fulfils the statutory requirement of the Accounts and Audit Regulations. The AGS encompasses the governance system that applied in both the Authority and any significant group entities (e.g. ESPO, EMSS) during the financial year being reported.

2. WHAT IS CORPORATE 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.

'Delivering Good Governance in Local Government: Framework', published by CIPFA in association with Solace in 2007, sets the standard for local authority governance in the UK. CIPFA and Solace reviewed the Framework in 2015 to ensure it remained 'fit for purpose' and published a revised edition in spring 2016. The revised Framework must be applied to annual governance statements prepared for the financial year 2016/17 onwards.

The concept underpinning the Framework is that it is helping local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

3. LEICESTERSHIRE VISION AND OUTCOMES

The vision and Outcomes Framework of the new Strategic Plan 2018 - 22 have been developed through extensive engagement across the Council and reviews of evidence, insight and existing policy commitments during 2017/18.

The five priority outcomes which are felt to reflect the priorities of residents, businesses and communities in Leicestershire have been identified using a range of evidence and population data as well as qualitative evidence from service users and residents surveys. A desk based review of existing partnership commitments and national statutory requirements and measures established a framework of the Council's duties. The Council's strategies have been used to aid discussions across the organisation to agree the strategic outcomes and develop the supporting outcomes. These strategies have also been subject to extensive engagement and public consultation. Input from Members, Chief Officers and senior managers from across the Council and key stakeholder organisations has further shaped the Plan.

The Plan explains how the Council will work over the next four years to ensure Leicestershire has a strong economy, people are well and safe, Leicestershire has great communities and there are quality and affordable homes. The Plan is now guiding service commissioning, planning and delivery in order to secure maximum delivery against these outcomes for the people of Leicestershire.

Our Vision :				
Working together for the benefit of everyone				
Strong Economy	Wellbeing and Opportunity	Keeping People Safe	Great Communities	Affordable and Quality Homes
Leicestershire's economy is growing and resilient so that people and businesses can fulfil their potential.	The people of Leicestershire have the opportunities and support they need to take control of their health and wellbeing.	People in Leicestershire are safe and protected from harm	Leicestershire communities are thriving and integrated places where people help and support each other and take pride in their local area.	Leicestershire has a choice of quality homes that people can afford.

The Council maintains a strong focus on performance management through its corporate performance management arrangements. Despite the financial and service pressures every effort is being made to drive service efficiency, innovation, service transformation and to digitise services and continue to deliver decent services and good outcomes for local people.

Looking at published data for 2016/17 (reported to Cabinet – November 2017), the Council has continued to improve its overall performance position to 7th of 27 two-tier county council areas, using a basket of performance indicators spanning Council and partnership activity. A number of the highest performing Councils have higher funding levels than Leicestershire due to the County Council's low funding position. The overall progress during 2017 in delivering on the Council's Strategic Priorities, securing transformation and mitigating the impact of national funding reductions, is set out in the Annual Delivery Report:

<https://www.leicestershire.gov.uk/about-the-council/how-the-council-works/leader-and-cabinet/council-performance>

4. WHAT THE AGS TELLS YOU

The AGS provides a summarised account of how the Council’s management arrangements are set up to meet the principles of good governance 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 developments required. 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.

The revised Framework requires local authorities to review arrangements against their Local Code of Corporate Governance. The Council’s Local Code of Governance has been revised so that it is consistent with the seven core principles of the Framework and was approved by the County Council at its meeting on 27 September 2017 <https://www.leicestershire.gov.uk/sites/default/files/field/pdf/2017/9/27/local-code-of-corporate-governance.pdf>


The Local Code will be reviewed again early in 2018/19. The principles contained in the Framework have been applied to the preparation of the AGS for the financial year 2017/18.

5. 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 governance framework including the system of internal control. This review requires the sources of assurance, which the Council relies on, to be brought together and reviewed – from departmental, corporate and external views (e.g. Internal Audit, Peer reviews, Inspections - Ofsted, CQC, H&SE)

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 conformance (or otherwise) with the seven core principles of the new Framework.

The self-assessments contained a set of conformance 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 	Conformance against the majority of the areas of the benchmark is good, although there may be minor developments required but 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; Substantial assurance can be given that coverage of the sub-principle is operating satisfactorily and extends to most/all services areas within the department

Annual Governance Statement

2	Some development/ areas for improvement 	There are some developments required 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; Moderate assurance can be given that coverage of the sub-principle is working adequately in certain service areas, with omissions in others; Proposal/Plans are in place to address perceived shortfalls
3	Key development and many areas for improvement 	Conformance against many/all areas of the benchmark is poor 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; Coverage of this expectation is omitted amongst most areas; Proposal/Plans to address perceived shortfalls are in early stages of development

The application of a more quantitative approach to assessing conformance against the Framework will allow the Corporate Management Team, Members and the public at large to obtain necessary assurance that the Council operates within an adequate governance framework, thus complying with the seven 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 action, the tables below only include the key areas where development is necessary.




A senior management group (comprising the following officers) with responsibility for producing the 2017/18 AGS has determined that progress on the development areas identified against each Principle below should be the responsibility of the service managers during 2018/19.

- Director of Law and Governance (the Council's Statutory Monitoring Officer)
- Director of Corporate Resources (the Council's Statutory Chief Financial Officer)
- Head of Democratic Services
- Assistant Chief Executive
- Head of Internal Audit & Assurance Service

Annual Governance Statement

Annual Review of the Effectiveness of the Council's Governance Framework against the CIPFA/SOLACE Delivering Good Governance in Local Government : Framework (2016)		
Core Principles of the Framework	Overall Assessment	Action to Develop Areas Further
<p>Principle A:</p> <p>Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p>		<p>The level of conformance is generally good, and the following key developments are noted:</p> <ul style="list-style-type: none"> • Embedding the Council's revised values and behaviours. • A Modern Slavery and Human Trafficking Statement was approved to promote the Council's stance on this issue and details the actions/activities already in place together with steps to be taken during the next 12 months. • To ensure external providers of services on behalf of the Council are required to act with integrity and in compliance with high ethical standards expected by the Council, a statement of supplier conduct has been drafted and will be progressed during 2018.
<p>Principle B:</p> <p>Ensuring openness and comprehensive stakeholder engagement</p>		<p>The level of conformance is reasonable however further development is required in:</p> <ul style="list-style-type: none"> • A corporate Consultation Communications and Engagement Group oversees and co-ordinates the Council's engagement activities. The council has recognised the value and importance of consultation and engagement will continue to develop this area in the future • Review of delegated powers of Chief Officers.
<p>Principle C:</p> <p>Defining outcomes in terms of sustainable economic, social, and environmental benefit</p>		<p>The level of conformance is good with further developments required as follows:</p> <ul style="list-style-type: none"> • Alignment of Medium Term Financial Strategy (MTFS) to the recently agreed priority outcomes in the Council's Strategic Plan for 2018-22. • Some challenges in ensuring a match between service user expectations and low comparative levels of funding the authority receives. Pressures on delivery in a number of areas, particularly Adult Social Care and Children's Social Care.

Annual Governance Statement

<p>Principle D.</p> <p>Determining the interventions necessary to optimise the achievement of the intended outcomes</p>		<p>Further development is noted in the following areas:</p> <ul style="list-style-type: none"> • Work is underway to ensure that strategic, operational, and financial plans are properly linked to the new Outcomes framework and key strategies. This will also include a refresh of departmental key performance metrics and dashboards. • The Council has agreed an Improvement Plan to invest an extra £2.5m to create new social care posts to help reduce caseloads, address Ofsted requirements and manage a rise in the numbers of children in care. • Continue to roll out self-service performance dashboards for managers through business intelligence and identification of service quality issues more explicitly in performance reporting. • Development of a centralised procurement function which will provide a single point of referral for all tendering activity.
<p>Principle E.</p> <p>Developing the entity's capacity including the capability of its leadership and the individuals within it</p>		<p>Further development is noted in the following areas:</p> <ul style="list-style-type: none"> • Fit for the Future project (joint project between the County Council and Nottingham City Council) should provide enhanced financial intelligence and further efficiencies in the delivery of transactional HR, Payroll, Finance and Procurement support services. • The corporate Performance and Development Review (PDR) system is under review. • Work to reduce the level of sickness absence and support people to return to work has been a focus. A team of HR officers have been appointed to specifically work as a task group on this issue.
<p>Principle F.</p> <p>Managing risks and performance through robust internal control and strong public financial management</p>		<p>The level of conformance is generally good, and the following key developments are noted:</p> <ul style="list-style-type: none"> • Continuing to improve contract management and monitoring/ reporting of key contracts and quality. • Greater validation processes within key databases. More digital support for front line managers in managing data and provision of data quality reports to identify weaker areas. • Implementation of recommendations from the Information Commissioners Office (ICO) voluntary audit : <ul style="list-style-type: none"> • Creation of Information asset register is in progress and will align with the Retention & Disposal Schedules. • Annual refresh of the completion of mandatory training Data Protection & Information Security training. • The Council is taking significant steps in its preparations for the new General Data Protection Regulations (GDPR). A project is underway and a project plan is in place. An Information Governance Project Board has been set up to govern both the GDPR project plan and the ICO Audit Action Plan and meets regularly.

Principle G.

Implementing good practices in transparency reporting and audit to deliver effective accountability



The level of conformance is good

Scrutiny and performance reporting is in place around the current main service departments, scrutiny committees and through appropriate boards. Performance reports on wider health performance go to Health Scrutiny Committee and Health and Wellbeing Board. Communities Strategy in place to support community delivery. Overview and Scrutiny Committees also monitor the performance and activities of the Leicestershire Children and Young People's Partnership Board, the Local Safeguarding Children Board, the Children's Social Care Panel. Transport Scrutiny considers matters which relate to environment; waste and recycling; public transport; and roads and road safety.

The Ministry of Housing, Communities & Local Government (February 2018) undertook a performance review of the Leicester and Leicestershire Enterprise Partnership (LLEP) across three themes: governance, delivery and strategy. The overall conclusion for the LLEP was reported as good.

However, further development was required as follows:

- Performance reporting, Health Senior Leadership Team, and Leicestershire Education Excellence Partnership oversight is being strengthened.
- Whilst the external peer review of the internal audit function returned top grading, there are some areas for development to action.

6. REVIEW OF EFFECTIVENESS

The Framework provides examples of documents, systems and processes that an authority should have in place. Using this guidance, the Council can provide assurance that it has effective governance arrangements – see section 4. The Council has an approved Local Code of Corporate Governance and this provides examples of good governance in practice.

The Control Environment of Leicestershire County Council

The Council's Constitution includes Finance and 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

Internal Audit Service

Leicestershire County Council Internal Audit Service (LCCIAS) should conform to the Public Sector Internal Audit Standards (the PSIAS) which were introduced in 2013. Revisions to the PSIAS in April 2016 were reflected in an updated Internal Audit Charter mandating the purpose, authority and responsibility of the internal audit activity at the Council, which was approved by Corporate Governance Committee in November 2016. The Charter allows the Council's 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. A further update to the Charter is required in 2018-19 to reflect PSIAS guidance on the role of the internal audit function in counter fraud activity.

In line with requirements to receive an independent external quality assessment once every 5 years, in

March 2018 the HoIAS commissioned Veritau Limited to undertake an independent validation of its self-assessment of conformance against the PSIAS (in effect a peer review).

Veritau concluded that *'It is our overall opinion that Leicestershire County Council generally conforms to the Public Sector Internal Audit Standards, including the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics and the Standards'*. Veritau explains that 'generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards. The review team found a number of areas of good practice as well as a number of areas which merit further attention which are accepted by the HoIAS and an action plan will be drawn up.

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 robustness of 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 the External Auditor may choose to review to assist their risk assessment when planning the 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 April. 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 2017/18 are:

- Governance – Nothing of 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.
- Risk management - Management has shown good engagement around risk and agreed to implement audit recommendations, which further mitigates risk. Therefore reasonable assurance is given that risk is managed.
- Financial and ICT Control – Reasonable assurance can be given that the Council's core financial and I&T controls remain strong.

Commercial and Collaborative Arrangements

Commercial

ESPO is constituted as a joint committee (of 6 local authorities) set up to provide a comprehensive professional purchasing service to public sector bodies. It is overseen by a Member Management Committee and reports regularly on its financial performance. Internal audit is undertaken by Council's Internal Audit Service as part of the servicing agreement. Similar to the County Council, the HoIAS presents an annual report to the Management Committee in June. The annual report incorporates the annual internal audit opinion (to be entered in the final AGS). Although not required to do so an external audit is also undertaken.

The Council's Cabinet in September 2017 approved a Corporate Asset Investment Fund Strategy which guides the Council's investments in assets not directly involved in the delivery of its services. That Strategy requires reporting to various member bodies. Future performance reports on the Council's activities will include details of the investments made and the performance of these against the targets set out in the Strategy.

The Council also has a trading arm- Leicestershire Traded Services (LTS), which sits within the Corporate Resources Department. Its activities are overseen by an Officer Board and the current MTFS assumes an income of £2.5million from traded services. The quarterly financial and performance reports includes the performance of the LTS as part of the Corporate Resources Department and these reports are considered by various member bodies.

East Midlands Shared Service (EMSS)

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 EMSS is undertaken by Nottingham City Council.

On the basis of audit work undertaken during the 2017/18 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 and that no significant issues had been discovered.

Local Government Pension Scheme (LGPS) – Central Pool

From 1 April 2018 individual LGPS Funds were required to operate pooled investment arrangements, in line with Central Government Policy. The LGPS Central Pool, of which the Leicestershire Pension Fund is one of 9 member schemes, became operational on 1 April 2018.

Under the new pooling arrangements, it is envisaged that the 9 partner funds will enjoy a client focussed approach in which LGPS Central would work closely with the Funds in order to provide the types of investments they require. Pooling the investment wishes of 9 Funds will lead to bigger portfolios and significant economies of scale also.

Risk Management

The Corporate Governance Committee has a responsibility 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 2018. Regular reports are provided to the Corporate Governance Committee on Strategic risks facing the Council. Key risks identified include:

- Delivering future financial savings – with risks around the ability to deliver savings through service redesign and transformation, impact of the living wage and other cost pressures.
- The council's financial position has worsened as a result of forecast overspends within children and family services, which requires growth, thus adding extra savings requirements. The children's social care placement budget is under increasing pressure as the number of looked after children continues to rise. This also includes increasing costs in relation to high needs pupils including SEN placements.
- If health sustainability and transformation does not lead to improved outcomes for health and wellbeing, then better care, quality of services and financial sustainability will be at risk. In addition, there is also a risk to delivering unrealistic national delayed transfer of care targets. The Leicestershire

Annual Governance Statement

Better Care Fund Plan was submitted to NHS England in September 2017 and partners in Leicestershire have decided proactively to undertake their own review using the methodology of the reviews to date to identify key areas for improvement.

- Other risks include:
 - Managing sickness absence;
 - Children and Family Services being able to recruit and retain skilled social workers and managers;
 - Supplier continuity plans;
 - IT Cyber Security risks;
 - Data Protection and GDPR.

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 2017/18 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 table below provides summary information of other key business considered by this Committee during 2017/ 18 to support the above.

- Quarterly Risk Management Updates and the Risk Management Policy & Strategy
- External Audit Plan, Statement of Accounts and Annual Governance Statement
- Quarterly Treasury Management updates and Annual Treasury Management Report 2016/17. Treasury Management Strategy Statement and Annual Investment Strategy 2018/19
- Internal Audit Plan, quarterly progress reports, and progress against High Importance recommendations as well as an Annual Audit Report
- Local Code of Corporate Governance
- Ombudsman Annual Review 2016-17 and Corporate Complaint Handling
- Annual Report on the Operation of Members' Code of Conduct and dealing with complaints
- Proposed Changes to the Contract Procedure Rules
- Information Commissioner's Office Inspection and GDPR Update
- Annual Reports - Business Continuity and Court Surveillance and Regulation of Investigatory Powers Act 2000 (RIPA)

External Audit

The Council's external auditors KPMG present the findings from their planned audit work to those charged with governance. Key conclusions reached are as follows:

- **Council's Medium Term Financial Strategy 2016-2020 (Value for Money Conclusion)**
 - 2016/17 Budget. 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.

Annual Governance Statement

- 2017/18 and future years planned budget. Appropriate arrangements are in place to identify and achieve savings. However, the Authority needs to continue to closely monitor progress and ensure its MTFS is kept up to date.
- The level of reserves are appropriate for the size of the organisation given the continued uncertainties and risks that lie ahead for the whole sector and the individual pressure and challenges the Authority faces in the short to medium term.

- **Opinion on the 2016/17 Annual Statement of Accounts**

- 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.

- **Annual Audit Plan (for the 2017/18 Accounts)**

- The audit plan was reported to members in January 2018 and the interim audit was completed in March 2018. The provision of relevant information by the Internal Audit Service which will assist KPMG to determine the planned audit approach for further testing during June and July 2018 before reporting the Audit Opinion in July 2018.

The Role of the Chief Financial Officer (CFO)

Throughout 2017/18, the Director of Corporate Resources undertook the role of the Chief Financial Officer (CFO) for the Council. The CFO conforms to the governance requirements and core responsibilities of two CIPFA Statements on the Role of the Chief Financial Officer; in Local Government (2016) and in the Local Government Pension Scheme (2014). 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 & Assurance Service undertakes the role of Head of Internal Audit Service (HoIAS) and 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 reviewed his conformance to the CIPFA 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 its 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.

7. ACTION TAKEN ON GOVERNANCE ISSUES REPORTED IN THE 2016/17 AGS

Progress that has been made in dealing with the governance issue that was identified in the 2016/17 AGS is detailed below:

Ref	Issue /Area for Improvement (AGS) 2016/17	Lead Officer and Date	Progress during 2017/18
1	<p><u>Help to Live at Home</u></p> <p>In November 2016, following a late withdrawal by a contracted provider of adult home care services, the Council was subject to criticism over its preparations, plans and arrangements for delivering the Help to Live at Home Programme, a joint procurement with the NHS. This impacted the Council's reputation for a short period of time and led to the Council's Cabinet Member for Adult Social Care apologising to service users whose care had been affected.</p> <p>Whilst the great majority of service users have received the care required the Council recognises there had been quality failings for some service users.</p> <p>Urgent action was taken by the service to ensure service continuity and the safety and wellbeing of service users. A pre-planned lessons learned exercise has been undertaken in conjunction with NHS partners. Outcomes of this are due to be reported to the Health partners' boards and the Council's Adults and Communities Overview and Scrutiny in the early summer.</p>	<p>Director of Adults & Communities</p> <p>September 2017</p>	<p>Work has been underway throughout 2017/18 to stabilise the delivery of the Help to Live at Home service.</p> <p>The new domiciliary care contracts have been operational for over a year now and delivery continues to improve.</p> <p>An average of 1900 hours of new care are commissioned each week; which is having a positive impact on people accessing packages of care both from hospital discharge and in the community. In December 2017, there were only 12% of people whose discharge from hospital was delayed due to social care (compared to 25 % the previous year) and the number awaiting a care package has continued to decline.</p> <p>The proportion of service users receiving care from a lead provider has steadily increased and now stands at 71%. Contingency providers are supporting the delivery of care in areas where the lead provider cannot pick up all of the new packages in their Lot.</p> <p>The re-procurement process for the 3 vacant Lots was completed in August 2017, with contracts being awarded to 3 providers. Services started as planned in November 2017.</p> <p>An update on the delivery of home care services was presented to the Council's Adults and Communities Overview and Scrutiny Committee on 6 March 2018.</p>

8. SIGNIFICANT GOVERNANCE ISSUES ARISING DURING 2017/18

This Annual Governance Statement identifies that the Council has effective arrangements in place, but that we recognise the need to continuously review, adapt and develop our governance arrangements to meet the changing needs of the organisation. Whilst the Council has identified areas to be developed (see section 4), it is important to recognise that the senior management group (13 March 2018) determined that there were no significant governance issues in 2017/18.

9. FUTURE CHALLENGES

Significant challenges faced by the County Council such as continuing funding reductions, delays to the localisation of business rates, progressing the transformation programme, driving further Health and Social Care integration (under the NHS Leicester, Leicestershire and Rutland Sustainability and Transformation Plan) and changes to the Better Care Fund 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 the Council.

New challenges continue to emerge in particular:

- Austerity - The Council is the lowest funded county council in the country and is among the lowest funded of all authorities. The Council continues to press for the development of a funding system which achieves a much fairer distribution of local government funding than the current system has achieved. The Council submitted a response to the Government's Fair Funding Technical Consultation on Relative Need with its views on what factors drive local government spending and how these can be reflected in the new "fair funding" system from 2020.
- The future outlook is challenging with continuing reductions in government funding coupled with rising demand especially in adults and children's social care.
- STP and Sustainable Care Funding - there continue to be risks locally arising from the need to ensure a sustainable local health and care economy to meet escalating demand from an increasing elderly population. Increasing emergency admissions, pressures to utilise resources on meeting delayed transfers of care targets, provider improvement requirements, and failure to achieve efficiencies and effective transformation of local health services, as well as a lack of a sustainable funding solutions for adult social care create a major challenge.
- The Independent Inquiry into Child Sexual Abuse (Jay Inquiry) - The Inquiry will investigate institutional responses to allegations of child sexual abuse involving the late Lord Janner of Braunstone QC. The Council is a Core Participant to the Janner Investigation and continues to provide information to the Inquiry when requested. The Council was made aware in December 2017 that the public hearing of the Janner Investigation will not be held before April 2019.

10. 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.

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 developments 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
Chief Executive

.....

Nicholas Rushton
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 and National Non Domestic Rates (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, 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.

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 transaction at 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.

GENERAL 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 PROVISION

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-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.

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.

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External Audit ISA260 Report 2017/18

**Leicestershire County
Council and Pension Fund**

July 2018



Summary for Corporate Governance Committee

This document summarises the key findings in relation to our 2017-18 external audit at Leicestershire County Council ('the Authority') and the Local Government Pension Scheme.

This report covers both our on-site work which was completed during June and July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements. The report is prepared for presentation at the Corporate Governance Committee 25 July 2018. We will update the Corporate Governance Committee at its meeting on any significant matters contained in this report.

Organisational and IT environment and control over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

We consider that your organisational controls are effective overall.

General IT Controls - We have deemed your IT controls are effective overall, but noted two areas for further improvement in relation to omission of specific user responsibility review and timely removal of leaver user access.

Key Financial System Controls - we have determined that the controls over the majority of the key financial systems are sound. We noted a weakness in respect of payroll BACS authorisation process, whereby for one of the three BACS payroll payments for one of the months tested, the same officer had both input and authorised the BACS payment.

Further detail can be found at page 6 and in Appendix 1.

Accounts production

The Authority's overall process for the preparation of its financial statements was good. We received a completed set of accounts on 31 May 2018.

The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers being made available to the audit team at the start of the onsite visit. However, there were some issues with the quality of data initially provided for our Data Analytics work which delayed this element of testing.

Summary for Corporate Governance Committee (cont.)

Financial statements

Subject to completion of the remaining work and all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.

There are currently the following outstanding matters:

- Final audit Director review;
- Addressing any remaining audit queries and any matters arising from our completion procedures;
- General audit file completion and review procedures;
- Post balance sheet events review up to the date of signing the audit opinion; and
- Final review of the working papers and amended accounts.

Based upon our initial assessment of risks to the financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 11):

- **Valuation of PPE** – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We have checked the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated
- **Pensions Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We have reviewed the processes in place to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation: and
- **Faster Close** – the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2016/17: 30 June) and the final accounts signed by 31 July (2016/17: 30 September). We have worked with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work.
- We have identified one audit adjustment with a total value of £1.36 million. See page 18 for details. There is no impact on the reported outturn position or the general fund balance as a result of this adjustment.

Summary for Corporate Governance Committee (cont.)

Financial statements cont.

Based on our work, we have raised 5 recommendations, which includes 2 relating to the Pension Fund. Details of our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our audit opinion and VFM conclusion before 31 July 2018. We expect to issue our completion certificate and Annual Audit letter before the end of September 2018.

Pension Fund financial statements

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements by 31 July 2018.

Based upon our initial assessment of risks to the Pension Fund financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our interim visit) we have identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 11:

- **Valuation of hard to price investments** - The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end.

Value for money arrangements

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. We have identified the following significant VFM audit risks:

- **Delivery of Budgets** – As a result of reductions in central government funding, and other pressures, the Authority continues to have to make additional savings beyond those from prior years. We considered the way in which the Authority identifies, approves, and monitors both savings plans and how budgets are monitored throughout the year.

See further details on page 24.

Summary for Corporate Governance Committee (cont.)

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work. Particularly the Strategic Finance Technical Accounting Team whose continued hard work and professionalism enabled the Authority to meet the earlier deadline this year without loss of quality of the Financial Statements or working papers.

Section one

Control Environment



Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

Despite this, we have noted two areas for further improvement:

- **No periodic user access responsibility review; and**
- **Timely removal of leaver user access.**

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Key findings

We consider that your organisational and IT controls are effective overall, but noted two of areas for further improvement:

- **Issue 1: No periodic user access responsibility review** – Discussions with the EMSS Systems Administration Team identified that user access responsibility reviews are not carried out on a periodic basis. The last significant user access responsibility review that was carried out was in 2015.
- **Issue 2: Timely revoking of leavers user access** – We reviewed over 2400 leavers covering the period 01/04/17 to 18/02/18 to ensure that individuals leaving the authority have their access to the authority's systems is revoked in a timely manner. Of these, 20 required further investigation as their access had not been revoke in a timely manner. It was identified that 5 had logged onto their Oracle accounts after their leaving date, although 4 only had access to Internet Expenses to access their final pay advice. The remaining leaver who had logged on had access to "IP Adults & Communities" which allows employees to raise and receipt orders, however any orders would need to have been approved. Our investigation confirmed that the individual had not raised any orders or made any requisitions since their leaving date.

Recommendations are included in Appendix 1.

Organisational and IT control environment (cont.)

Aspect of controls	Assessment
Organisational controls:	
Management’s philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3
IT controls:	
Access to systems and data	2
System changes and maintenance	3
Development of new systems and applications	3
Computer operations and end-user computing	3

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

Controls over key financial systems

The controls over the majority of the key financial systems are sound. However, there is a weaknesses in respect of Payroll BACS authorisation process.

Work completed

We evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

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

Key findings

Based on our work we have determined that the controls over the majority of the key financial systems are sound.

We noted one weaknesses in respect of an individual financial system:

- Weakness: Payroll BACS authorisation process we found that for one of the three monthly BACS payroll payments in one of the months tested, the same officer had both input and authorised the BACS payment.

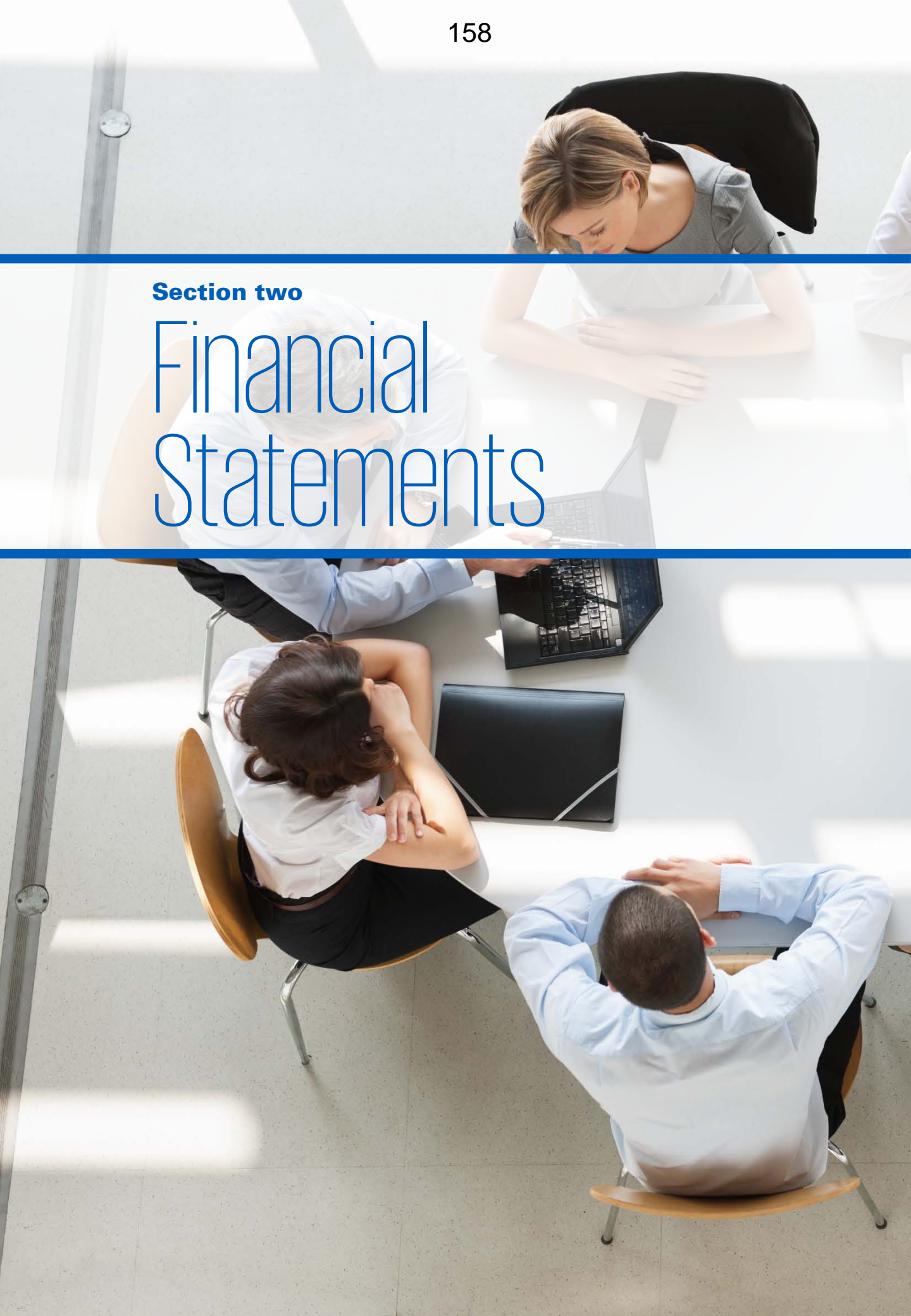
Recommendation are included in Appendix 1.

Aspect of controls	Assessment
Property, Plant and Equipment	3
Cash and Cash Equivalents	3
Pension Assets and Liabilities	3
Non pay expenditure	3
Payroll	2
Pension Fund	3

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

Section two

Financial Statements



Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has implemented all of the recommendations in our ISA 260 Report 2016/17.

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We consider that the overall process for the preparation of your financial statements is good.

We also consider the Authority's accounting practices appropriate.

Going concern

The financial statements of both the Authority and the Pension Fund have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority or Pension Fund to continue as a going concern.

Implementation of recommendations

We raised two recommendations in our ISA 260 Report 2016/17, both of which have been implemented. Further details are included in Appendix 2.

Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2018, which is the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to officers before the start of the audit. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority and the Pension Fund to provide audit evidence in line with our expectations.

The working papers provided this year have been of a good standard. The requested working papers were available at the start of the audit visit and the finance team responded promptly to any requests for additional information or explanation.

However, there were some issues with the quality of data initially provided for our Data Analytics work which delayed this element of testing.

Response to audit queries

Finance staff were available throughout the audit visit to answer our queries and the queries were responded to promptly. We thank the finance team for their co-operation throughout the visit which allowed the audit to progress within the allocated timeframe.

Pension Fund audit

The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements and those of the Pension Fund by 31 July 2018. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

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

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

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

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

02

Fraudulent 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 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

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

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements and those of the Pension Scheme.

Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

<p>Risk:</p>	<p>Valuation of PPE</p> <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.</p>
<p>Our assessment and work undertaken:</p>	<p>We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.</p> <p>In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.</p> <p>We considered movement in market indices between revaluation dates and the year end the year end in order to determine whether these indicate that fair values have moved materially over that time.</p> <p>We also assessed the valuer’s qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).</p> <p>There are no matters from our work which we need to draw to your attention.</p> <p>We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 16.</p>

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

<p>Risk:</p>	<p>Pension Liabilities</p> <p>The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Leicestershire Local Government Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p>
<p>Our assessment and work undertaken:</p>	<p>As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Hymans Robertson.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Hymans Robertson.</p> <p>In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.</p> <p>In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies.</p> <p>Some elements of this work are still in progress at the date of this report. Subject to completion of the remaining work we would expect to determine that the net pension liability had been properly accounted for and disclosed in the financial statements.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 17.</p>

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:	<p>Faster Close</p> <p>In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>During 2016/17, the Authority started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were ready by 31 May, although the final signed accounts were not approved until 29 September. Whilst this was an advancement on the timetable applied in preceding years, further work was still required in order to ensure that the statutory deadlines for 2017/18 were met.</p> <p>In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:</p> <ul style="list-style-type: none"> — Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries and consortia) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this; — Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process; — Ensuring that the Corporate Governance Committee meeting schedules have been updated to permit signing in July; and — Applying a shorter paper deadline to the July meeting of the Corporate Governance Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report. <p>In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.</p> <p>There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return and the Pension Fund Annual Report. This is not a matter of concern and is not seen as a breach of deadlines.</p>
Our assessment and work undertaken:	<p>We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.</p> <p>We received draft financial statements on the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years.</p> <p>As a result of this work we determined that the Authority had met the earlier financial reporting requirement.</p>

Specific audit areas (cont.)

Significant Audit Risks – Pension Fund

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund.

Risk:	<p>Valuation of hard to price investments</p> <p>The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may also be susceptible to pricing variances given the number of assumptions underlying the valuation.</p> <p>In the prior year financial statements, £1,033 million out of a total of £3,873 million of investments, or 27%, were in this harder to price category. For year ended 31 March 2018, £1,248 million out of a total of £4,075 million of investments, or 30%, were in this harder to price category</p>
Our assessment and work undertaken:	<p>As part of our audit of the Pension Fund, we independently verified a selection of investment asset prices to third party information and obtained independent confirmation on asset existence. We also tested the extent to which the Pension Fund had challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of the figures.</p> <p>As a result of this work we determined that investment assets had been correctly 'tiered' into the fair value hierarchy levels. We also determined that management had challenged the valuations reported by investment managers, especially when valuations had been 'rolled-forward' on a cash flow basis.</p>

Judgements (cont.)

Subjective area **2017-18** **2016-17** **Commentary**

Valuation of pension assets and liabilities

3 **3**

The Authority continues to use Hymans Robertson to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a 0.5% change in the discount rate would change the net liability by £175,268 million.

The actual assumptions adopted by the actuary fell within our expected ranges with the exception of Discount rate and Life expectancy as set out below:

Assumption	Actuary Value	KPMG Range	Assessment
Discount rate	2.70%	2.20-2.60%	2
CPI inflation	2.40%	1.90-2.50%	3
Net discount rate	0.3%	0.10-0.30%	3
Salary Growth	CPI plus 1%	CPI plus 0% to 2.0%	3
Life expectancy			
Current male / female	22.1/24.3	22.1/23.5	2
Future male/female	23.8/26.2	23.9/25.4	



Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements following approval of the Statement of Accounts by the Corporate Governance Committee on 25th July 2018 and signing of the Statement of Accounts at the Constitution Committee on 27th July 2018.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4) for this year's audit was set at £15.25 million. Audit differences below £0.75 million are not considered significant.

We did not identify any material misstatements. We identified an issue that has been adjusted by management. There were no unadjusted misstatements identified during our audit that we are required to report to you.

The table below illustrate the total impact of audit differences on the balance sheet as at 31 March 2018. There is no impact on the General Fund for the year as a result of this adjustment.

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 2017-18 ('the Code'). We have set out details of significant presentational adjustments in Appendix 3. We understand that the Authority will be addressing these where significant.

Balance Sheet as at 31 March 2018

£m	Pre-Audit	Post-Audit	Ref ¹
Property, Plant & Equipment	£938.5m	£937.1m	T1.1
Net worth	£313.0m	£311.6m	
Unusable reserves	£150.3m	£148.9m	T1.1
Total Reserves	£313.0m	£311.6m	

¹ See referenced adjustments in Appendix 3.

Annual governance statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that it is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Pension Fund financial statements

We anticipate issuing an unqualified audit opinion on the Pension Fund's 2017-18 financial statements following approval of the Statement of Accounts by the Corporate Governance Committee on 25 July 2018 and signing of the Statement of Accounts at the Constitution Committee on 27 July 2018 .

Pension Fund audit

Our audit of the Fund also did not identify any material misstatements.

For the audit of the Fund we used a higher materiality level of £31 million. Audit differences below £1.550 million are not considered significant.

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.

Fund account as at 31 March 2018			Net assets as at 31 March 2018		
£m	Pre-Audit	Post-Audit	£m	Pre-Audit	Post-Audit
Opening net assets of the scheme	3,881	3,881	Net investments	4,075	4,075
Contributions and transfers in	192	192	Net current assets	8	8
Benefits and leavers	(171)	(171)	Net assets of the scheme	4,083	4,083
Management expenses	(6)	(6)			
Return on investments	187	187			
Closing net assets of the scheme	4,083	4,083			

Annual report

The statutory deadline for publishing the annual report is 1 December 2018. The Pension Fund Annual Report is due to be approved by the Local Pension Committee by this date. We will need to complete additional work in respect of subsequent events to cover the period between signing our opinions on the Statement of Accounts and the Pension Fund Annual Report.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 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 Leicestershire Local Government Pension Scheme for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Leicestershire County Council and Leicestershire Local Government Pension Scheme its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the 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 or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

Section three

Value for Money Arrangements



Specific value for money risk areas

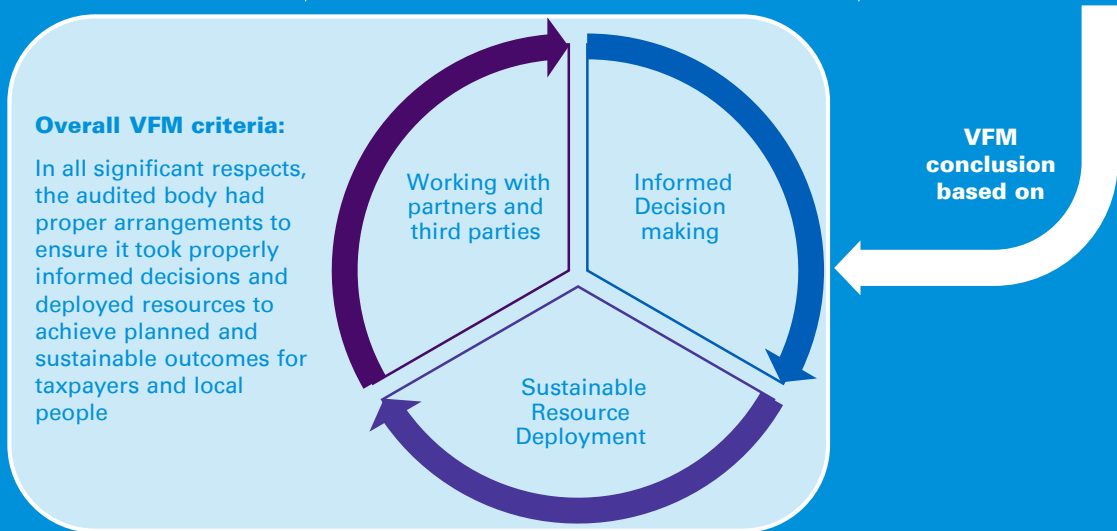
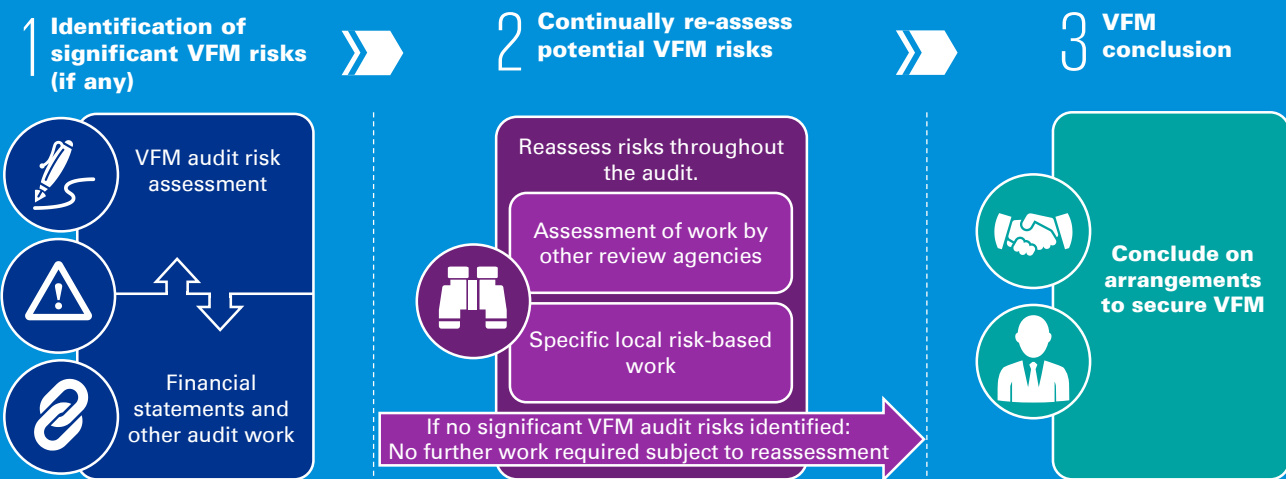
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We 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.

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.'

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



Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Delivery of budgets	✓	✓	✓

In consideration of the above, we have concluded that in 2017-18, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.



Specific value for money risk areas (cont.)

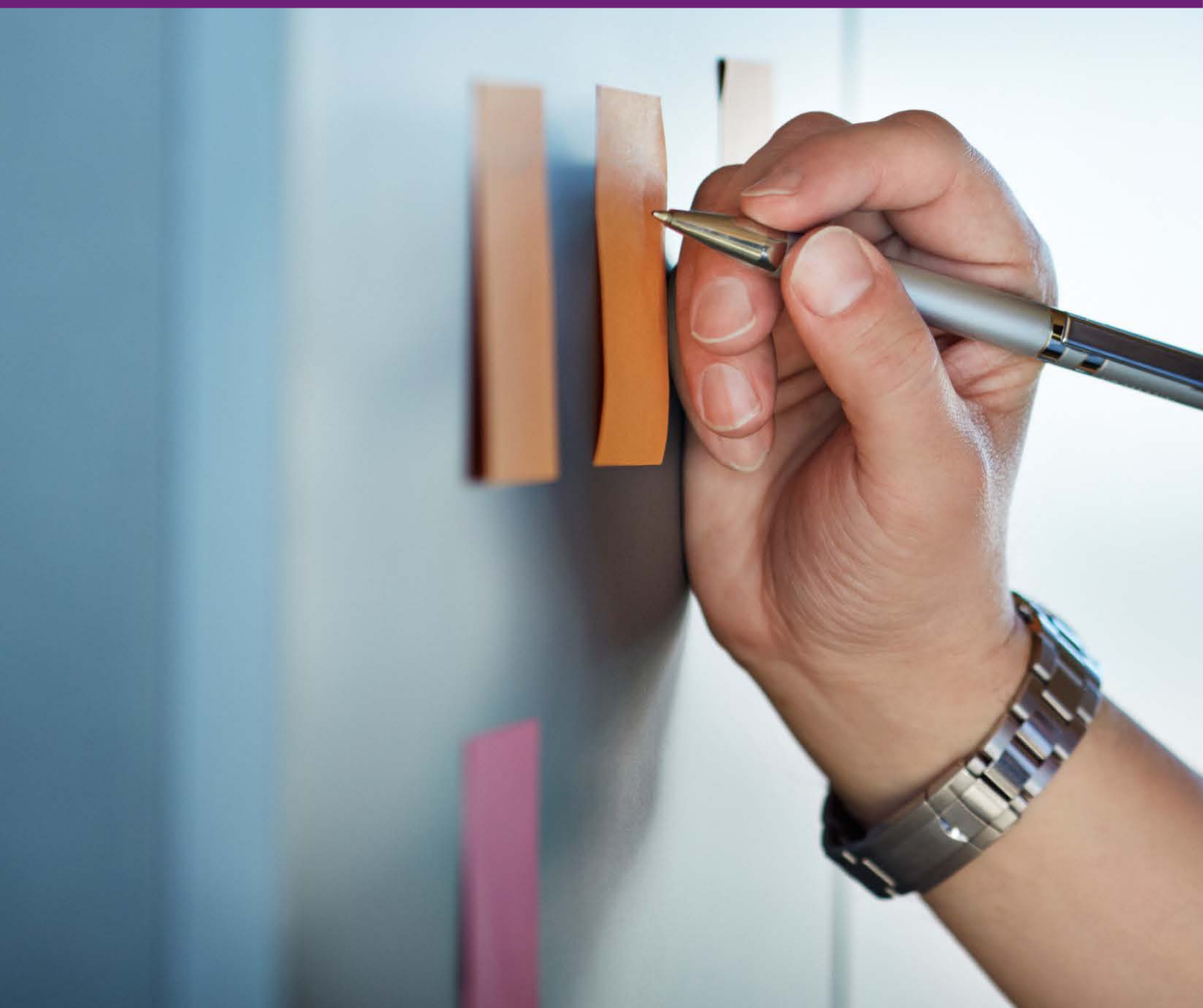
As communicated to you in our *External Audit Plan 2017-18*, we identified a risk requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

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

We have provided below a summary of the risk area identified, our work undertaken and the conclusions reached.

Risk:	<p>Delivery of budgets</p> <p>The Authority identified the need to make savings of £16.4 million in 2017/18. The current year forecast, at period 8, shows that the Authority is on track to deliver the required savings and achieve an anticipated underspend of approximately £7.5 million.</p> <p>The Authority's draft Medium Term Financial Strategy 2018-22 was approved at the December 2017 Cabinet meeting and recognised a need for £16.5 million in savings to be achieved in 2018/19. The draft budget includes individual proposals to support the delivery of the overall savings requirement. Further savings of £37 million will be required over the period 2019/20 to 2021/22 to principally address future reductions to local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience.</p>
Our assessment and work undertaken:	<p>Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. For 2017/18 the Authority's outturn was contained within budget and as forecast throughout the year</p> <p>The Authority's MTFs details a balanced budget for 2018/19 including savings of £17.6 million in year, all of which have been identified. However, the MTFs details the increasingly difficult financial challenges faced each year, resulting in the need for continued year on year savings. The authority is currently developing further saving plans to address budget shortfalls on 2020/21 and 2021/22 amounting to a total of £13.2m. We reviewed a number of the Authority's saving schemes and have found that overall there are good-quality schemes and robust reporting.</p> <p>The level of reserves held by the Authority include balances held on behalf of schools and for joint projects with partners. As at 31 March 2018 the General County Fund £24.0 million (2016/17 £25.8 Million) and Earmarked Revenue Reserves £125.1 million (2016/17 £109.4million). The level of reserves are appropriate for the size of the organisation given the continued uncertainties and risk that lie ahead for the whole sector and the individual pressure and challenges the Authority faces in the short to medium term.</p> <p>The Authority will need to continue to keep the level of reserves under review on a periodic basis as its reserve requirements change.</p> <p>We are satisfied that there were adequate arrangements in place at 31 March 2018 and there are no significant matters relating to this risk area which prevent us from giving an unqualified VFM conclusion.</p>

Appendices



Key issues and recommendations

Our audit work on the Authority and Pension Fund’s 2017-18 financial statements has identified five issues that have been listed in this appendix together with our recommendations which we have agreed with Management. We have also included Management’s responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

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

Priority Rating for Recommendations

1	<p>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.</p> <p>Recommendations Raised: 0</p>	2	<p>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.</p> <p>Recommendations Raised: 3</p>	3	<p>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.</p> <p>Recommendations Raised: 2</p>
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No.	Risk	Issue & Recommendation	Management Response
1	2	<p>No periodic user access responsibility review</p> <p>Discussions with the EMSS Systems Administration Team identified that user access responsibility reviews are not carried out on a periodic basis. The last significant user access responsibility review that was carried out was in 2015.</p> <p>Risk</p> <p>Users have inappropriate access responsibilities for their role which could lead to the misappropriation of the Authority’s assets.</p> <p>Recommendation</p> <p>That the Authority implements regular reviews of user access responsibilities for appropriateness for users current roles.</p>	<p>Agreed</p> <p>Responsible Officer</p> <p>Chris Tambini</p> <p>Implementation Deadline</p> <p>October 2018</p>

Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
2	2	<p>Timely revoking of IT access for leavers</p> <p>Over 2400 leavers covering the period 01/04/17 to 18/02/18 were reviewed to ensure that individuals leaving the authority had their access to the authority's IT systems revoked in a timely manner. Of these, 20 required further investigation as their access had not been revoke in a timely manner. It was identified that 5 had logged onto their Oracle accounts after their leaving date, although 4 only had access to Internet Expenses. The remaining leaver who had logged on had access to "IP Adults & Communities" which allows employees to raise and receipt orders, however any orders would need to have been approved. Our investigation confirmed that the individual had not raised any orders or made any requisitions since their leaving date.</p> <p>Risk</p> <p>Misuse of Authority IT systems by users who have left the authority.</p> <p>Recommendation</p> <p>To review the current process of identifying users whose access need to be revoked due to them having left the Authority.</p> <p>In addition the Authority has started its Oracle ERP system replacement programme and should ensure that as part of the replacement the weakness within the current Oracle system for revoking leavers access in a timely manner is addressed.</p>	<p>Agreed</p> <p>Responsible Officer</p> <p>Chris Tambini</p> <p>Implementation Deadline</p> <p>October 2018</p>
3	2	<p>Payroll BACS authorisation</p> <p>Payroll BACS authorisation process we found that for one of the three monthly BACS payroll payments in one of the months tested, the same officer had both input and authorised the BACS payment.</p> <p>Risk</p> <p>Incorrect payroll payments made to employees.</p> <p>Recommendation</p> <p>Ensure that the input and authorisation of BACS payments are always undertaken by two separate officers.</p>	<p>Agreed</p> <p>Responsible Officer</p> <p>Chris Tambini</p> <p>Implementation Deadline</p> <p>October 2018</p>

Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
4	3	<p><i>Pension Fund – Investment Asset Reconciliation</i></p> <p>Quarterly NAV statements received from Fund Managers are not input into the ledger until the year end, during accounts closedown process.</p> <p><i>Risk</i></p> <p>Changes in market values of the Fund’s investments is not journaled into the ledger correctly.</p> <p><i>Recommendation</i></p> <p>The Fund should reconcile the Fund Manager NAV statements back to the ledger on a quarterly basis. This should be prepared and approved by two separate officers.</p>	<p>Agreed</p> <p><i>Responsible Officer</i></p> <p>Chris Tambini</p> <p><i>Implementation Deadline</i></p> <p>December 2018</p>
5	3	<p><i>Pension Fund – Bank Reconciliation</i></p> <p>Pension Fund cash is currently reconciled on a daily basis. We noted that this reconciliation is not formally reviewed.</p> <p><i>Risk</i></p> <p>Cash is incorrectly reconciled between the bank and the ledger.</p> <p><i>Recommendation</i></p> <p>The Fund should implement a formal month end bank reconciliation, which is prepared and approved by two separate officers. This will also align the Fund’s processes with the ones of the County Council.</p>	<p>Agreed</p> <p><i>Responsible Officer</i></p> <p>Chris Tambini</p> <p><i>Implementation Deadline</i></p> <p>October 2018</p>

Follow-up of prior year recommendations

The Authority has implemented all of the recommendations raised through our previous audit work.

In the previous year we raised two recommendations which we reported in our *ISA 260 Report 2016/17*

Number of recommendations that were

Included in the original report	2
Implemented in year or superseded	2
Outstanding at the time of our interim audit	0

No.	Risk	Issue & Recommendation	Management Response	Status of recommendation
1	2	<p>Approval of the 2016/17 Final Statement of Accounts within the earlier deadline.</p> <p>For 2016/17 the Authority decided to keep the approval of the Final Statement of Accounts to September even though they planned for and successfully produced the draft Statements to meet the new 2017/18 deadline. This decision was to allow for any slippage in the planned earlier close down and accounts production, thereby avoiding the risk of having to alter committee dates at short notice.</p> <p>However, in order for the Authority to meet the new 2017/18 deadline, arrangements for the earlier approval of the final Statement of Accounts will need to be in place.</p> <p>Recommendation</p> <p>Ensure that arrangements have been made for the appropriate approval of the final Statements of Accounts in accordance with the new 2017/18 deadline.</p>	<p>Accepted</p> <p>Responsible Officer</p> <p>Chris Tambini</p> <p>Implementation Deadline</p> <p>31 December 2017</p>	Fully implemented
2	2	<p>Key Staff changes within the Strategic Finance Technical Accounting Team</p> <p>The Strategic Finance Technical Accounting Team (TAT) successfully produced the draft statements two months earlier this year in preparation for the new 2017/18 deadline. However, a key officer within the team left during the year and their replacement is not due to take up post until October 2017. The new officer will be under pressure to learn the requirements of their new role whilst also supporting the team to maintain the early closedown and draft statement production.</p> <p>There is a risk that this may lead to delays in the production of the draft statements and/or quality issues with supporting working papers. Both of which could have an adverse impact on the length of our audit and the Authority meeting the new 2017/18 deadline.</p> <p>Recommendation</p> <p>Ensure adequate support and training is available to TAT during closedown and production of the statements and continue to have regular catch up meetings with ourselves, particularly running up to close down, to monitor progress and address any issues as they arise.</p>	<p>Accepted</p> <p>Responsible Officer</p> <p>Chris Tambini</p> <p>Implementation Deadline</p> <p>31 December 2017</p>	Fully implemented

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the 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.

A number of minor amendments focused on presentational improvements have also been made to the 2017-18 draft financial statements. The Technical Accounting Team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences – Authority

The following table sets out the significant audit differences identified by our audit of Leicestershire County Council's financial statements for the year ended 31 March 2018. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Table 1: Adjusted audit differences – Authority (£'m)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Surplus on Revaluation of Property, Plant and Equipment	Unusable Reserves Total Comprehensive Expenditure and Income	Property, Plant and Equipment – Land and Buildings		Unusable Reserves – Revaluation Reserve	Difference between asset value per K2 property system and Fixed Asset Register following download from K2.
	Cr 1.36	Dr 1.36	Cr 1.36		Dr 1.36	Total impact of adjustments

Presentational adjustments - Authority

We identified a number of presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code').

None of these adjustments were not significant and it is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Presentational adjustments – Pension Fund

We also identified a number of presentational adjustments required to ensure that Pension Fund's financial statements for the year ending 31 March 2018 are fully compliant with the Code.

None of these adjustments were not significant and it is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Materiality and reporting of audit differences

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

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in January 2018.

Materiality for the Authority's accounts was set at £15.25 million which equates to around 1.9% 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, an individual difference is considered to be clearly trivial if it is less than £0.75 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 0.8 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £1.55 million for 2017-18.

Required communications with the Corporate Governance Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Auditing Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified one adjusted audit differences with a total value of £1.36 million. See page 18 for details. This adjustment did not impact the reported deficit on provision of services. We have identified no adjusted differences as a result of our audit of the Pension Fund's financial statements.
Unadjusted audit differences	We have identified no unadjusted differences as a result of our audit of the Authority's and Pension Fund's financial statements
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Corporate Governance Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment in Section one of this report. We identified two IT control environment and one key financial systems control deficiencies which are reported from page 6.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Members or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Required communications with the Corporate Governance Committee (cont.)

Required Communication	Commentary
Other information	<p>No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement.</p> <p>These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.</p>
Our declaration of independence and any breaches of independence	<p>No matters to report.</p> <p>The engagement team and others in the firm have complied with relevant ethical requirements regarding independence.</p> <p>See Appendix 6 for further details.</p>
Accounting practices	<p>Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 17.</p>
Significant matters discussed or subject to correspondence with management	<p>There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.</p>



Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF LEICESTERSHIRE COUNTY COUNCIL AND LEICESTERSHIRE LOCAL GOVERNMENT PENSION SCHEME

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Breaches of applicable ethical standards;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations related to breaches of the FRC Ethical Standard

On 12 October 2017 we wrote to the Council outlining a breach in relation to the FRC Ethical Standard in respect of the engagement of KPMG EU Tax Funds team in February 2011 and April 2013 to provide tax services in relation to the recovery of withholding tax on manufactured overseas dividends to Leicestershire County Council Pension Fund.

These tax engagements have been terminated and we do not consider the breach to have been significant in terms of our independence and objectivity as your auditors for the following reasons:

Declaration of independence (cont.)

- The audit team were not aware of the existence of the service until April 2017 and as a result this would not have impaired their objectivity for the audit periods up to 31 March 2016.
- No services have been provided since KPMG's appointment as auditor to Leicestershire County Council Pension Fund.
- The tax claims made amount to £1,464,999.51. This is not regarded as material to the financial statements of Leicestershire County Council Pension Fund.
- The tax claims were still unsettled at the point in time when the engagement was terminated and consequently the potential tax repayment had not been recognised in the accounts of the pension fund.

Based on the above, in our professional judgement, we have concluded that our objectivity as auditor has not been compromised and the firm and the engagement team maintained their independence of Leicestershire County Council Pension Fund.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	76,950	76,950
Audit of the Pension Fund	27,637	27,637
Total audit services	104,587	104,587
Audit related assurance services	2,500	2,500
Total Non Audit Services	2,500	2,500
Total fees payable	107,087	107,087

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 4%. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Audit-related assurance services				
Grant Certification – Teachers Pensions Return	The nature of these audit-related services is to provide independent assurance on the return. As such we do not consider them to create any independence threats.	Fixed Fee	2,500	nil

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Corporate Governance Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Corporate Governance Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.



KPMG LLP

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our fee for the 2017/18 audit is £76,950 (£76,950 2016/2017) for the Authority and £27,637 (£27,637 2016/17) for the Pension Fund, which is consistent with prior year and in line with the scale fees published by PSAA.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee (Leicestershire County Council)	76,950	76,950
PSAA Scale fee (Leicestershire Local Government Pension Fund)	27,637	27,637
Total audit services	104,587	104,587
Audit-related assurance services		
Teachers' Pension Return (work planned for September)	3,000	2,500
Total non-audit services	3,000	2,500
Grand total fees for the Authority	107,587	107,087

All fees quoted are exclusive of VAT.





The key contacts in relation to our audit are:

John Cornett

Director

T: +44 (0)7468 749 927

E: John.Cornett@kpmg.co.uk

Daniel Hayward

Senior Manager

T: 44 (0)7776 101 412

E: Daniel.Hayward@kpmg.co.uk

Kerry Sharma

Assistant Manager

T: +44 (0)7920 710 881

E: Kerry.Sharma@kpmg.co.uk

Asim Iqbal

Assistant Manager – Pension Fund

T: +44 (0)7825 207 523

E: Asim.Iqbal@kpmg.co.uk

kpmg.com/uk



This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, 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, 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 3HZ.

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Mr J Cornett
KPMG LLP
Chartered Accountants
St Nicholas House
Park Row
Nottingham
NG1 6FQ

Date: 25 July 2018
My Ref:
Your Ref:
Contact: Chris Tambini
Phone: 0116 305 6199
Fax:
Email: Chris.Tambini@leics.gov.uk

Dear John

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 2018, 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 2018 and of the Authority's expenditure and income for the year then ended;
- ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- iii. 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 2017/18.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes (including the Expenditure and Funding Analysis). The Pension Fund financial statements comprise the Fund Account, the Net Assets 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:

Corporate Resources

Leicestershire County Council, County Hall, Glenfield, Leicestershire LE3 8RB
Email: resources@leics.gov.uk

Chris Tambini, Director of Corporate Resources

www.leics.gov.uk

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 2018 and of the Authority's expenditure and income for the year then ended;
 - ii. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and other benefits after the end of the scheme year;
 - iii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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:

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.

7. The Authority has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and

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

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 Related Party Disclosures.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

11. The Authority confirms that:

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

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) Employee Benefits.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:

- statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- funded or unfunded; and
- approved or unapproved,

have been identified and properly accounted for; and

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

This letter was tabled and agreed at the meeting of the Corporate Governance Committee on 25th July 2018.

Yours faithfully,

Chris Tambini
Director of Corporate Resources

Mr. P. Bedford CC
Chair of the Corporate Governance Committee

Appendix to the Authority 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 and the Expenditure and Funding Analysis.

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

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

Material Matters

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

IAS 1.7 and IAS 8.5 state that:

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

Fraud

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

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

Error

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

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

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

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

Management

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

Related Party and Related Party Transaction

Related party:

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

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

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

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

Related party transaction:

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

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