



#### Meeting: Constitution Committee

- Date/Time: Tuesday, 21 March 2023 at 11.30 am
- Location: Sparkenhoe Committee Room, County Hall, Glenfield
- Contact: Mr. E. Walters (Tel: 0116 305 2583)
  - Email: Euan.Walters@leics.gov.uk

#### Membership

Mr. N. J. Rushton CC (Chairman)

Mr. P. Bedford CC Mr J. Poland CC Mr. L. Breckon JP CC Mr. R. J. Shepherd CC Mr. M. T. Mullaney CC Mrs D. Taylor CC

#### **AGENDA**

<u>ltem</u>		Report by	
1.	Minutes of the meeting held on 25 November 2022.		(Pages 3 - 6)
2.	Question Time.		
3.	Questions asked under Standing Order 7(3) and 7(5).		
4.	To advise of any other items which the Chairman has decided to take as urgent.		
5.	Declarations of interest.		
6.	Statement of Accounts, Annual Governance Statement and Pension Fund Accounts 2021/22.	Director of Corporate Resources	(Pages 7 - 292)
7.	Appointment of Independent Members to the Corporate Governance Committee	Director of Law and Governance	(Pages 293 - 296)

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- 8. Any other items which the Chairman has decided to take as urgent.
- 9. Exclusion of the press and public.

The public are likely to be excluded during the following item of business in accordance with section 100(A) of the Local Government Act 1972:-

- Charitable Trust Future Arrangements.
- 10. Charitable Trust Future Arrangements.Director of Law<br/>and Governance(Pages 297 -<br/>318)



Minutes of a meeting of the Constitution Committee held at County Hall, Glenfield on Friday, 25 November 2022.

#### PRESENT

Mr. P. Bedford CC Mr. L. Breckon JP CC Mr. M. T. Mullaney CC Mr J. Poland CC Mrs H. L. Richardson CC Mr. N. J. Rushton CC Mrs D. Taylor CC

1. Appointment of Chairman.

**RESOLVED**:

That Mr. N. J. Rushton CC be appointed Chairman for the period ending with the date of the Annual Meeting of the County Council in 2023.

#### Mr. N. J. Rushton CC in the Chair.

2. <u>Election of Deputy Chairman.</u>

**RESOLVED**:

That Mrs. D. Taylor CC be elected Deputy Chairman for the period ending with the date of the Annual Meeting of the County Council in 2023.

3. <u>Minutes of the previous meeting.</u>

The minutes of the meeting held on 7 December 2021 were taken as read, confirmed and signed.

4. <u>Question Time.</u>

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

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

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

6. <u>Urgent items.</u>

There were no urgent items for consideration.

7. <u>Declarations of interest.</u>

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.

#### 8. Charitable Trust Future Arrangements.

The Committee considered a report of the Director of Law and Governance which made proposals for the future arrangements for the Educational Trusts of which the County Council was the sole corporate Trustee. A copy of the report, marked 'Agenda Item 8', is filed with these minutes.

In response to a question from a member it was confirmed that whilst The Mary Smith Scholarship Fund related to both Ashby-de-la-Zouch Grammar and Ivanhoe Secondary School there was not a joint governing body and Ashby-de-la-Zouch Grammar school had been administering the fund on behalf of both schools and Ivanhoe Secondary School would require liaising with about any plans going forward.

The purpose of the Piercy Scholarship Fund was to assist students who had attended Loughborough schools with a preference to those studying Electrical Engineering. In response to a question from a member it was confirmed that this fund was to be restricted to students attending Loughborough College as the College was considered to be the successor body offering a similar course and this fitted best with the original intentions of the trust although it was intended that this be subject to further legal advice.

A member raised concerns regarding the possibility of members of the community taking over from the County Council as trustees of the Kibworth Beauchamp High School Foundation and stated that given the substantial amounts of land held by the trust it was desirable for a body with more expertise such as a parish council to be trustee. The Director of Law and Governance acknowledged this point and gave reassurance that consideration was being given to all options including splitting the capital holding from the land held by the trust and having the County Council retain the land as trustee.

#### **RESOLVED**:

- (a) That the progress in relation to the Leicestershire Educational Trust Fund, and the reporting arrangements in relation to the Leicestershire and Rutland Community Foundation fund, be noted;
- (b) That it be confirmed that the revenue held in relation to the closing trusts in the proposed Leicestershire Educational Trust Fund may be invested into the new fund and the Director of Law and Governance be authorised to close and transfer the funds listed at paragraphs 13 to 18 of the report and to take any steps necessary to achieve this, including obtaining external specialist legal advice, if required;
- (c) That the position in relation to the Kibworth Beauchamp High School Foundation be noted and the Director of Law and Governance be authorised to explore the potential to transfer the trust (in whole or in part) to new trustees as outlined in paragraphs 26 to 28 of the report and take external legal advice in relation to achieving this.

#### 9. <u>Review and Revision of the Constitution.</u>

The Committee considered a report of the Chief Executive which recommended changes to the County Council's constitution as part of the annual review. A copy of the report marked 'Agenda Item 9', is filed with these minutes.

It was noted that the proposed changes to the constitution had been considered by the Corporate Governance Committee at its meeting on 21 November 2022 and whilst the Committee supported the changes the Committee had raised concerns about a possible increase in workload arising from the proposed changes to the terms of reference for the Corporate Governance Committee made in light of new CIPFA guidance received in October 2022.

One aspect of the CIPFA guidance was that the membership of the Corporate Governance Committee should include two non-voting independent members. The Director of Law and Governance confirmed that it was expected that one of those independent members would have a background in audit and the other a background in governance.

**RESOLVED**:

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

1.00 - 1.14 pm 25 November 2022 CHAIRMAN

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## Agenda Item 6



## **CONSTITUTION COMMITTEE – 21 MARCH 2023**

## **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

## STATEMENT OF ACCOUNTS, ANNUAL GOVERNANCE STATEMENT & PENSION FUND ACCOUNTS 2021/22

#### **PURPOSE**

- 1. The purpose of this report is to:
  - a) present the 2021/22 financial statements, Appendix A, for approval,
  - b) inform the Committee of the main areas of the financial statements, and
  - c) report the key findings from the external audit of the accounts.

#### BACKGROUND

- 2. The Accounts and Audit Regulations 2015 require authorities to approve and publish their accounts, including the auditor's opinion, by the end of July following the end of the financial year. As a result of Covid-19 the Accounts and Audit (Amendment) Regulations 2021 amended the deadlines for the external audit of the financial statements to the end of September 2022.
- 3. During the audit planning phase the County Council and the external auditor agreed to a revised deadline for the final audit opinion to early 2023. This was to allow for time for new legislation to be passed, and subsequent Cipfa guidance to be received, in respect of the revised accounting treatment for Infrastructure (highways) assets.
- 4. A copy of the updated financial statements is attached as Appendix A.
- 5. Copies of the external auditor's, Grant Thornton UK LLP, audit findings reports for the County Council and its Pension Fund are attached as Appendix B and Appendix C respectively.
- 6. Copies of the letters of representation for the County Council and its Pension Fund are attached as Appendix D and Appendix E.
- 7. The Corporate Governance Committee will consider the auditor's reports at its meeting on 16 March 2023. 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 on the County Council and the Pension Fund accounts.

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- 8. The level of audit testing has continued to increase significantly compared to previous years. This stems from increased requirements on auditors from their regulators, the National Audit Office, and is reflected in the increasing levels of audit fees.
- 9. The Statement of Accounts is prepared under the International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounts.

#### STATEMENT OF ACCOUNTS

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

#### Narrative Statement

11. 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)

- 12. 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 accounting standards, but statutory mitigation allows it to be reversed out via the STACAAA to avoid it being a charge to the General Fund.
- 13. Overall, usable reserves, which comprise the General Fund and earmarked revenue and capital reserves, total £255m as at 31 March 2022:

Usable Reserves	31/3/21	31/3/22
	£m	£m
General Fund – Delegated Funding for Schools	9.7	11.3
General Fund – Uncommitted Balance	17.0	18.0
Total General Fund	26.7	29.3
Earmarked Reserves	176.6	225.4
Total Usable Reserves	203.3	254.7

General Fund

14. The General Fund includes delegated funding for schools and the uncommitted balance of the County Council which is held for unforeseen risks that require short term funding. The balance of £18m represents 3.8% of the net budget (excluding schools' delegated budgets for 2022/23) which is slightly below the target level of 4% to 7% set out in the Council's reserves policy. The new MTFS 2023-27 includes plans to increase the uncommitted fund to £23m by the end of 2026/27.

#### Earmarked Revenue and Capital Funds

- 15. Earmarked funds totalled £225m as at 31 March 2022 compared with £177m at the same time the previous year. The main reason for the change was an increase in the capital financing reserve due to slippage on some projects and the approach to apply other sources of capital funding, e.g. grants, where the grant conditions allow, before using the funding in the capital financing reserve.
- 16. Details of the earmarked revenue funds can be found in Note 12 to the accounts. The significant earmarked funds held are:
  - Capital Financing £111m. Holds MTFS revenue contributions to fund capital expenditure in the approved four 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, both in 2022 and 2021, is net of £25m investment in Pooled Property Funds. The funding of the £25m investment is shown against the capital financing reserve, but in effect is funded from the overall balance of earmarked funds and can be realised in the future when required.
  - Budget Equalisation £32m. This reserve is held to manage variations in funding across financial years. This includes the increasing pressures on the High Needs element of the Dedicated Support Grant which was in deficit by £29m at the end of 2021/22 and is forecast to increase to £91m by the end of 2026/27.
  - Insurance £16m. Funds 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.
  - Other earmarked funds £65m. Funds for a range of issues including health and social care initiatives, public health initiatives, business rates reset and a range of service developments and initiatives including transformation projects as detailed in Note 12 to the accounts.
- 17. Capital receipts and capital grants unapplied total £1m. The balance held represents funds received, but not yet used. The amounts vary as and when capital projects complete.
- 18. The required level of earmarked funds is kept under review during the year. Formal assessments are undertaken 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)**

- 19. 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.
- 20. 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.
- 21. The CIES shows a net surplus on the Provision of Services for 2021/22 of £20m compared with a net surplus of £48m in 2020/21. The reduction is mainly due to an increase in gross expenditure in the Adults and Communities and Children and Family Services (C&FS) departments arising from MTFS growth, and the write out of academy conversions within C&FS.

#### Balance Sheet

- 22. 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 2022 net assets of the County Council were £485m (31 March 2021, £125m). The principal reason for the increase is due to a decrease in the net pension liability of £259m and the increase in reserves mentioned earlier in the report.
- 23. As at 31 March 2022, the net deficit on the pension fund as assessed under international accounting standard 19 (IAS19) had decreased to £576m from £836m at the same time last year. This was mainly due to an increase in the discount rate used to calculate the present value of future pension fund liabilities (the higher the discount rate used the lower the present value of future liabilities). During the year corporate bond yields increased, resulting in a higher discount rate in the IAS19 pension fund valuation report used in the accounts.
- 24. 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.
- 25. However, it is the triennial fund valuation, most recently as at 31 March 2022, that actually informs the levels of future contributions required. The results of the latest valuation reported that the fund had increased to a 105% funded position (89% previously), which was a remarkable improvement largely driven by investment return over the last 3 years.
- 26. The Balance Sheet also shows the valuation of Property, Plant and Equipment owned by the County Council. The total held was £984m as at year end compared with £958m for the previous year end. The increase reflects capital additions in year

through the capital programme, revaluation gains and losses, and reductions for depreciation.

- 27. Accounting provisions increased slightly to £8m from £7m previously. 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, representing the estimated value of outstanding unsettled claims at 31 March 2022, the County Council's 'notional' share of the district councils' business rates appeals and a provision for the restoration of Firs Farm. The share of business rates appeals is notional as it is required to be reversed out via the Collection Fund Adjustment Account (shown at the bottom of the Balance Sheet) in order that it is not a charge to the General Fund.
- 28. Investments include Cash and Cash Equivalents (highly liquid investments that mature within 3 months or less from the date of acquisition) and short and long term investments. These totalled £465m as at 31 March 2022, compared with £360m at the same time last year. The increase is mainly related to the increase in the balance of usable reserves and long term capital grants received in advance (section 106 receipts not yet applied) as at year end.
- 29. The capital financing requirement (CFR) is shown in Note 39 to the accounts and totals £214m 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 £263m. The difference between the CFR and actual debt is a temporary overborrowed position of £49m which will be reversed over the MTFS due to planned increases in the CFR from (internal) borrowing to fund the four year capital programme. This position is refreshed annually as part of the MTFS.

#### ANNUAL GOVERNANCE STATEMENT

30. The financial statements are 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 is approved by the Corporate Governance Committee.

#### PENSION FUND ACCOUNTS

- 31. The financial statements also include the Pension Fund Accounts for the Local Government Pension Scheme administered by the County Council.
- 32. The last available triennial actuarial valuation of the pension fund showed that as at 31 March 2022 the fund's assets covered approximately 105% of the liabilities accrued up to that date. This funding level was a significant increase on the 89% position reported in the 2019 valuation. Although the funding level of individual employers will vary the positive position indicated that the contribution rates for the majority of employing bodies is expected to have peaked
- 33. While this is a positive position there are still significant risks. In November 2022 the Pension Committee received a report on the draft results and noted that taking the long-term funding view, careful consideration needed to be given to the result and

how it impacted the employer individual results particularly with inflation at levels above 10%.

- 34. To ensure that the fund remains financially sound to meet benefit payments, the Fund Actuary recommended the rate of employer contributions on an individual employer basis for each employing body in the fund for the next three year period. The proposed levels have been consulted on with employers and confirmed by the Pension Committee at its meeting on 3 March 2023. The Actuary is scheduled to issue the final valuation report, including the final employer rates, later in March 2023.
- 35. There were 286 employers within the fund and over 99,000 members in the pension scheme as at 31 March 2022.
- 36. The overall net assets of the fund increased during the year to £5.8bn from £5.2bn at the end of last year end. For all LGPS Funds, investment returns have been significantly higher than last year. Details of the investments held are shown in Note 12 to the Pension Fund Accounts.

#### KEY FINDINGS OF THE EXTERNAL AUDITOR

#### Audit Findings Report – Leicestershire County Council 2021/22

- 37. The auditor has reviewed the financial statements and anticipates issuing an unqualified opinion. The auditor will provide an update to the Corporate Governance Committee on 16 March 2023.
- 38. It should be noted that, as a result of increasing regulation on audit firms, the external audit for 2021/22 has increased significantly in its coverage and expectations. This is also reflected in the increase in fees in recent years and those advised for the new audit contract from 2023/24.
- 39. While there were some issues identified during the audit the auditor has reported that in respect of the significant risks identified in the audit plan:
  - there was no evidence of management override of controls,
  - two issues in relation to revenue recognition,
  - no issues in respect of the risk of fraud,
  - a minor issue in relation to the valuation of the pension fund,
  - the Council has correctly applied the legislative and CIPFA Code of Practice requirements for infrastructure assets, and
  - no issues in respect of the completeness of non-pay operating expenditure.
- 40. Overall, there were two material issues identified during the audit of the financial statements. These have been corrected and the external auditor anticipates issuing an unqualified opinion on the County Council accounts.
- 41. There were also some smaller potential issues raised that are not material. All but one have not been adjusted for in the financial statements as agreed with the external auditor.

42. The detailed explanations of the differences will be reported to the Corporate Governance Committee on 16 March 2023, and are included below for information.

#### Material Items

- 43. <u>Academy Land Valuations</u> when schools convert to Academy status the Council provides the academies with a 125-year lease but retains legal title to the land. During the 2021/22 audit the Council and the external auditor reviewed the valuation method used for school land. Following this review the Council and the auditor have now concluded that the previously agreed valuation method (to use current market value is no longer appropriate) and to instead revalue the land assets to £1 to reflect the restricted use to the authority. As a result, a prior period adjustment to the accounts has been made and a reduction of £211m to the value of land and buildings in the balance sheet as at 31 March 2022.
- 44. Incorrect netting off of debtor and creditor balances the accounting records contain certain codes that are managed on a gross basis to assist with reconciliations. An example is with VAT input tax is debited to one code and output tax is credited to a separate code. However, the net balance is what is due from or to the Council. As part of the preparation of the balance sheet an exercise is undertaken to net down these codes. On one code an error occurred and the code was incorrectly netted down. The total correction required was £43m, requiring an adjustment to gross back up debtors and creditors. This correction has been made in the accounts.

#### Other Items

- 45. <u>Valuation of school buildings</u> the basis of the valuations provided by the external valuer did not correctly include the requirements of the Department for Education (DfE) guidance in respect of school areas resulting in an understatement of the value The valuations have now been amended and the accounts updated. The adjustment required was £4.8m as at 31 March 2021, and £5.3m cumulative as at 31 March 2022. The accounts have been adjusted for this item.
- 46. The following have been reviewed with the auditor and agreed to not be material and have therefore not been adjusted for in the accounts.
- 47. <u>Understatement of Pension assets</u> in order to produce the draft accounts within the timescales required by the Accounts and Audit Regulations it is sometimes necessary to use estimates for certain entries in the draft accounts particularly when the data is dependent on a third party. Once the actual figures are eventually reported (sometimes many months later), these can differ from the estimates used. An example is the value of pension fund assets as part of the estimate of the net pension liability as assessed by accounting standard IAS19. As at 31 March 2022 the difference relating to the Council was a reduction in the net pension liability of £2.3m
- 48. <u>Potential understatement of the debtors credit loss allowance</u> the Council uses a combination of individual review of larger debts and estimates for smaller debts when making a provision for potential unrecoverable debts as at year end. The auditor has challenged some of the percentages used and has calculated a potential understatement of the allowance (of £2m) if higher percentages were used. However, the Council has a low historical experience of bad debt write offs and does not

calculate the required provision on that basis, but it has agreed to review the percentages used.

- 49. <u>Delay to the de-recognition of academy schools</u> there were two schools derecognised in 2021/22 instead of 2020/21. Both schools converted to academy status during 2020/21 and should have been derecognised in that year. Processes have been updated to avoid this delay in writing out the values.
- 50. Movement of valuations on assets not revalued in 2021/22 in line with the CIPFA accounting Code of Practice the Council values land and building assets on a rolling programme at least once every five years. In addition there is a requirement to ensure that values are not materially misstated as at the balance sheet. It is impractical and expensive to value every asset every year and so high value assets are subject to more frequent valuations. As at 31 March 2022 the Council revalued almost £300m of its total £450m of land and building assets. For assets not subject to valuation as at the 31 March 2022 an accounting estimate shows that there could be a potential £2.8m increase in valuations had all assets been valued.
- 51. Potential overstatement of debtors balances within a sample of invoices outstanding as at year end there was one invoice that had subsequently been credited and cancelled after year end, and one invoice that has not yet been paid while a dispute on an element of the overall charge is being resolved. This is normal in the course of business where invoices can be disputed and clarifications and corrections made. Extrapolating these examples for the overall population of debtors shows a potential overstatement of income of £1m as at 31 March 2022.

#### New Issues and Risks

- 52. There was a new audit engagement lead and mostly new audit team in place for the audit of the 2021/22 accounts, both on the County Council and the Pension Fund. This, together with enhanced levels of testing now required from auditors', has resulted in the identification of some areas of the accounts that could be improved and may assist the audit team in future audits. These issues are listed below and will be reviewed during summer 2023, after the 2022/23 accounts have been completed:
  - General ledger code structure number of codes used.
  - Journal postings below £20,000 auto approved, although segregation is in place.
  - Grossing up of control codes journals then required to net down.
  - Monthly allocations (journal postings) process to allocate the income and expenditure net totals to the balance sheet (to balance the balance sheet).
  - Reallocation of costs internal recharges net off on fixed codes.
  - Reconciliation of code balances example of one code not fully reconciled.
  - Derecognition of plant and equipment disposal fully depreciated assets, the net position is correct but the gross balances are incorrect. Housekeeping exercise required in the fixed asset register.

#### Audit Fees

53. The auditor has confirmed their final audit fee for 2021/22 as £139,777 compared with the proposed fee of £114,715 in the audit plan. The increase in the fee is due mainly to the additional work required for the corrections necessary to the accounts.

## Audit Findings Report – Leicestershire County Council Pension Fund 2021/22

- 54. The auditor's work is substantially complete and they anticipate issuing an unqualified opinion for the pension fund.
- 55. During the audit there was one adjustment identified totalling £7.95m relating to the valuation of hard to value pooled assets, which was not available when the accounts needed to be prepared. For these assets estimates have to be made as the valuations are not known for many months after the year end date. The amount was not material overall and this was not adjusted for in the accounts. This was agreed with the external auditor.
- 56. There were two control issues reported relating to; journal postings below £20,000 auto approved (without separate approval), and senior finance officer's ability to enter journals. No irregularities were identified and management have agreed to make changes to remove the risks.
- 57. There were two inconsistencies identified following a review of the accounts to the pension fund annual report. These were rounding and timing differences. The annual report has been updated to agree with the Pension Fund final accounts.
- 58. Other recommendations made in the appendix to the auditor's report around the observations below these were all accepted:
  - No evidence of review of assumptions used in the valuation of the pension fund's direct property portfolio;
  - Internal control reports and bridging letters, two fund manager reports were unavailable;
  - Bodies joining the Pension Fund not accounted for (as at the year-end date) details not available at the time the draft accounts had to be prepared.
  - IT system access to Oracle Fusion, password configuration, and batch job management.
- 59. Updates were also made to some disclosure notes within the Pension Fund accounts to ensure that they fully meet the requirements of the CIPFA accounting code of practice. These are listed in the appendix to the auditor's report.
- 60. The auditor has confirmed their final fee for audit of the pension fund is £33,193, and £17,000 for the IAS19 assurance work (for the County Council and the auditors of the scheduled admitted bodies with a 31<sup>st</sup> March year-end). Both final fees are in line with the proposed fees in the audit plan for 2021/22.

#### Value for Money Arrangements

- 61. The Auditor's Annual Report (AAR) was received in February 2023 and will be reported to the Corporate Governance Committee on 16 March 2023. A copy is attached for information, Appendix F.
- 62. The AAR is a detailed review of the value for money (VfM) arrangements at the Council. The AAR is a relatively new report, required by the National Audit Office. The first AAR, for 2020/21, was reported in January 2022. The report covers five areas. These are:

- Financial sustainability;
- Governance;
- Improving economy, efficiency and effectiveness;
- The opinion on the financial statements; and
- Pension Fund arrangements.
- 63. Overall, the auditor's report is very positive. The external auditor has concluded that the Council has a good track record of sound financial management, had appropriate arrangements in place to manage the financial resilience risks, has a clear and documented governance framework in place and a well-developed performance management framework. No significant weaknesses have been reported.

#### RECOMMENDATION

64. The Committee is recommended to approve the financial statements for 2021/22.

#### **BACKGROUND PAPERS**

Provisional revenue and capital outturn, Cabinet – 27 May 2022 https://politics.leics.gov.uk/documents/s169173/Provisional%20Outturn%20Report%20-%20FINAL.pdf

Report to Corporate Governance Committee – 16 May 2023 https://politics.leics.gov.uk/documents/s175377/External%20Audit%20of%20the%2021-22%20Statement%20of%20Accounts.pdf

#### **CIRCULATION UNDER THE LOCAL ISSUES ALERT PROCEDURE**

None.

#### EQUAL OPPORTUNITIES IMPLICATIONS

None.

#### APPENDICES

Appendix A – Financial Statements 2021/22

Appendix B – External Auditors Report - County Council

Appendix C – External Auditors Report - Pension Fund

Appendix D – Letter of Representation – County Council

Appendix E – Letter of Representation – Pension Fund

Appendix F - Auditor's Annual Report 21/22

#### **OFFICERS TO CONTACT**

Mr C Tambini, Director of Corporate Resources, Corporate Resources Department, 20116 305 6199 E-mail <u>Chris.Tambini@leics.gov.uk</u>

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

Corporate Resources Department, 20116 305 7668 E-mail <u>Declan.Keegan@leics.gov.uk</u> This page is intentionally left blank

## Leicestershire County Council, Statement of Accounts, Annual Governance Statement and Pension Fund Accounts 2021/22

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## **Introduction to the Statement of Accounts**

## **Councillor Preface**

Like all Local Authorities, the County Council's financial year 2021/22 was impacted by the Covid 19 pandemic. The results of this and financial pressures from rising inflation have caused a significant impact on the national and local economies.

The County Council continues to face significant financial, demographic and service demand challenges. When the MTFS was set in February 2022 we knew that it would be a challenging plan, with a gap in 2025/26 of £40 million, despite savings of £54 million having been identified. The revenue budget is now under even more pressure, as inflation takes hold. Based upon the latest economic forecasts, particularly for the National Living Wage, the financial gap could realistically be £30m rising to over £70m by 2025/26.

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 I am confident that the Council can meet these challenges.

#### Mr. L. Breckon Cabinet Lead Member for Corporate Resources

#### Foreword from the Director of Corporate Resources



The County Council is operating in an extremely challenging financial environment following more than a decade of austerity and spending pressures, particularly from social care and special education needs, and more recently the Covid-19 pandemic and rising inflation. There is also significant uncertainty and risk around future funding levels.

Despite these challenges the 2021/22 revenue and capital outturns were both delivered within budget.

During 2021/22 the Council has invested in a number of capital projects, all funded without borrowing, including:

- £27m investment in Children and Family Services, including 1,070 additional school places
- £19m investment in highways maintenance
- £10m on major road improvements in the County

Delivery of the Capital Programme will continue to be challenging, especially given rising inflation and increased demand for new schools and roads. However, with continued hard work and careful planning we expect to continue to deliver value for money capital projects.

I would like to thank all our staff for their work to manage the Council's budget in what has been an incredibly challenging year.

Chris Tambini Director of Corporate Resources



**Narrative Statement** 

## **Narrative Statement**

### 1. Organisational Overview and External Environment

The Council has consolidated its priority outcomes into its Strategic Plan for 2022-26. The Strategic Plan sets out the Council's long-term vision for Leicestershire and its priorities over a four-year period. It is a key strategy which shapes how the Council plans and delivers services

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 over £230m saved since 2010 and a further £94m to save by 2025/26. The position is serious with major implications for the provision of services to the people of Leicestershire. Reductions in government funding, rising demands and rising inflation have made it increasingly difficult to maintain good service delivery levels and target service improvements where required.

The current funding system does not share national resources fairly, and this view is shared by many others in local government. The Council has presented a new simplified funding model to central government 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. A move to a fairer funding model is an urgent requirement to help tackle the Council's financial challenges.

#### Leicestershire as a Place

Leicestershire covers an area of 208,000 hectares, with a population of around 713,000 people. The population is growing, and is predicted to reach 860,000 by 2043, with particular growth among the over 70's. 82% of Leicestershire's area is classified as rural while 70% of the population live in our towns and urban areas.

Out of work benefit claimant rates are consistently below national and regional levels but remain higher than before the COVID-19 pandemic. Manufacturing is the largest industrial sector in the county, accounting for 12% of all employment, followed by Professional, Scientific and Technical (11%). 95% 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 Strategic Planning Framework, working sub-regionally (with Leicester City and the Leicestershire district authorities) and working regionally on economic and transport planning, such as with the Midlands Engine.

#### **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 6,010 employees (excluding schools) organised into 6 departments:

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

#### 2. Governance

The Council's Annual Governance Statement (AGS) summarises the outcome of the Council's review of the Governance Framework that has been in place during 2021/22. 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 four significant governance issues in 2021/22 which are further explained in section 9 of the AGS.

#### 3. 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. Central government funding reductions and rising demands have seen a higher level of risk needing to be managed and this has been further exacerbated by the COVID-19 crisis and resulting economic impact.

#### 4. 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:



- Clean, green future: The environment is protected and enhanced, and we tackle climate change, biodiversity loss and unsustainable resource usage
- Great communities: Leicestershire has thriving, inclusive communities in which people support each other and participate in service design and delivery
- Improving opportunities: Every child gets the best start for life with access to a good quality education and everyone has the opportunities they need to fulfil their potential.

#### 5. Financial Performance

#### **Revenue Budget**

A summary of the net revenue outturn for 2021/22 is set out below:

- Strong economy, transport and infrastructure: Leicestershire has a productive, inclusive and sustainable economy and infrastructure which meets the demands of a growing population and economy.
- Keeping people safe and well: The people of Leicestershire are safe and protected from harm.

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.

	2020/21				2021/22	
Budget	Outturn	Variance		Budget	Outturn	Variance
£m	£m	£m		£m	£m	£m
150.8	156.7	5.9	Adults & Communities	157.7	160.1	2.4
12.3	14.0	1.7	Chief Executive's	12.8	12.9	0.1
82.8	86.6	3.8	Children & Family Services	90.5	86.8	(3.7)
33.7	40.0	6.3	Corporate Resources	35.4	36.5	1.1
83.4	76.8	(6.6)	Environment & Transport	84.7	81.0	(3.7)
(0.7)	(0.7)	0.0	Public Health	(1.3)	(1.3)	0.0
0.0	9.9	9.9	Approved additional commitments	0.0	0.0	0.0
27.5	42.4	14.9	Central Items and Contingencies	31.3	34.8	3.5
389.8	425.7	35.9		411.1	410.8	(0.3)
			Funded by:			
(68.4)	(69.8)	(1.4)	Business Rates	(69.4)	(72.0)	(2.6)
(321.4)	(321.4)	0.0	Council Tax	(329.9)	(334.9)	(5.0)
0.0	0.0	0.0	Revenue Support Grant	0.0	0.0	0.0
0.0	(34.5)	(34.5)	Covid-19 General Grants	(11.8)	(11.8)	0.0
(389.8)	(425.7)	(35.9)		(411.1)	(418.7)	(7.6)
0.0	0.0	0.0	NET OUTTURN	0.0	(7.9)	(7.9)

The 2021/22 net outturn was a net underspend of £7.9m, which has been set aside in earmarked funds to provide funding for additional commitments. The financial year saw significant additional pressures on expenditure and income budgets across a wide range of services arising from the Covid-19 pandemic, offset to some extent by a range of Government grants. The longer-term financial impacts of the pandemic will not be seen until later years and contingencies have been set aside to meet those future pressures.

The Authority has made significant progress in achieving the savings in the MTFS, but there is still a long way to go. The 2022-26 MTFS includes a savings requirement of £94m.



#### **Capital Budget**

A summary of the capital outturn for 2021/22 is set out below:

	2020/21				2021/22	
Budget	Outturn	Variance	Capital	Budget	Outturn	Variance
£m	£m	£m		£m	£m	£m
10.2	8.9	(1.3)	Adults & Communities	5.2	5.0	(0.2)
0.9	0.6	(0.3)	Chief Executive's	2.3	1.3	(1.0)
35.8	23.7	(12.1)	Children & Family Services	38.8	26.6	(12.2)
24.4	17.4	(7.0)	Corporate Programme	2.5	1.2	(1.3)
9.8	6.9	(2.9)	Corporate Resources	8.6	7.0	(1.6)
64.5	47.5	(17.0)	Environment & Transport	61.4	41.1	(20.3)
0.0	0.0	0.0	Public Health	0.0	0.0	0.0
145.6	105.0	(40.6)		118.8	82.2	(36.6)

Overall there has been a net underspend of £36.6m compared with the updated budget. The net underspend has been carried forward to the 2022-26 capital programme to fund delayed projects.

Further detail of the budget outturn variances for revenue and capital can be found be in the Cabinet report dated 27 May 2022 available on the County Council's Website.

#### 6. 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 2020/21, the Council's overall performance position was 3rd of 33 two-tier county and county unitary areas, using a basket of 240 performance indicators spanning Council and partnership activity.

In a separate exercise, iMPOWER Consulting has in the past analysed the productivity of English local authorities using published data, taking performance metrics and calculating overall outputs per pound invested. The Council was ranked top performer for the last 3 published years – 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 strategic outcomes set out our aspirations for our people and places. The following chart sets out our progress towards the outcomes from the Council Strategic Plan 2018-22. Where it is available, the chart indicates which comparative quartile Leicestershire's performance falls into based upon 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 <u>Annual Delivery Report</u> and Performance Compendium provides a more detailed account of performance during the year.



#### **Narrative Statement**

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#### Strategic Plan Outcomes (Q4 2021/22)

This is a summary of performance against the Council Strategic Plan 2018-22. Colours represent performance quartiles in relation to relevant comparators, where available. The 1st quartile (green) is defined as performance that falls within the top 25% of relevant comparators.



Outcome1	Supporting Outcome1							improve	similar	decline
Strong	Businesses can flourish	5	2 4		8			3	4	4
Economy	Right Infrastructure for clean growth	4	3 3	4				10	2	2
	Skilled & employable workforce	3	8		7			2	9	2
Wellbeing	Access to quality education	4	4	4				3	5	3
and	Every child gets best start in life	4	5	7	4	5		5	9	4
Opportunity	Everyone can reach potential	5	6		8	3		8	8	4
	Healthy Population	5	6		11	6	2	7	22	1
	People cared for at home when possible	3	6	5	3	8		4	11	2
Keeping	Children live in stable environments	6	4	3	2			2	6	3
People Safe	Families are self-sufficient		9						3	2
	People are safe in daily lives	3	6	6		14		7	2	12
	People at risk are protected	2 3	7					1	7	3
Great	Communities are resilient	1							1	
Communities	Communities plan for the future	7						4	3	
	Cultural, historical & natural heritage	5						3	1	1
	Diversity is celebrated	2							3	1
	Protect environment for future	5	2					6	2	1
Affordable	Development contributes to communities	2								1
and Quality	Homes are sustainable	1						1		1
Homes	Housing for those with care needs	2						1	2	1
	Right homes in right places	7	4	2				3	1	6

Where it is available, the chart indicates the number of indicators within each outcome and the quartile in which Leicestershire's performance falls into for each indicator. The 1st quartile is defined as performance that falls within the top 25% of relevant comparators. Where it is available, the chart also indicates whether performance has improved, is similar to, or has declined compared to the last relevant data point.

## 7. Medium Term Financial Strategy

#### Medium Term Financial Strategy (MTFS)

The County Council continues to operate in an extremely challenging financial environment following more than a decade of austerity and spending pressures, particularly from social care and special education needs and disabilities (SEND). These pressures continue. There are additional pressures from the ongoing impact of Covid-19 and rising inflation. These are challenges being faced by all 150 upper tier authorities.

The Authority's 4 year Medium Term Financial Strategy (MTFS) agreed in February 2022 is based on a council tax increase of 2.99% for 2022/23, followed by annual increases of 1.99% in the following years. Delivery of the MTFS requires savings of £80m to be made between 2022 and 2026. The MTFS sets out in detail £40m of savings and proposed reviews that will identify further savings to offset the forecast £40m funding gap by 2025/26. Latest estimates of the impact of inflation show a potential increase of £3m required for 2022/23 rising to £31m by 2025/26. This would increase the MTFS shortfall in 2025/26 to £71m.

A further £14m of savings will be required over the MTFS to ensure that High Needs funding can be contained within the annual government grant. This is in addition to a forecast dedicated schools grant deficit of £63m by 2025/26.

Strong financial control, plans and discipline will be essential in the delivery of the MTFS.



#### **Narrative Statement**

There is little doubt that the Authority faces the most uncertain and risky financial environment for a generation. The MTFS is reviewed annually in the autumn to reflect the latest view on available resources. The <u>current MTFS</u> is available on the Authority's website.

## 8. Current Borrowing / Investments

The capital financing requirement (CFR) shown in note 39 to the financial statements measures the Authority's need to borrow for capital purposes. The total of non-current assets as at 31 March 2022 was £1.1bn (as at 31 March 2021 £1.0bn). The CFR was £214m as at 31 March 2022 (£232m as at 31 March 2021) and actual debt was £263m as at 31 March 2022 (£263m as at 31 March 2021). The difference between the CFR and the actual debt is a temporary overborrowed position, pending the repayment of debt. During 2021/22 no external loans were raised (£0m 2020/21). Details of the loans held by the Authority are shown in note 434 to the financial statements. The level of capital borrowing is within the Authority's 2021/22 Prudential Indicators that inform the Authority whether its capital investment plans are affordable, prudent and sustainable.

Investments held by the Authority total £352m as at 31 March 2022 (£261m 31 March 2021). 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.

## 9. Basis of Preparation and Contents of the Statement of Accounts

The Statement of Accounts which follows sets out the Authority's income and expenditure for the year, and its financial positions as at 31 March 2022. 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 2021/22, which in turn is underpinned by International Financial Reporting Standards adapted for use in a public sector context. The Statement of Accounts consists of:

#### a) 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.

#### b) 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.

#### c) Balance Sheet:

The Balance Sheet shows the value as of 31<sup>st</sup> March 2022 of the assets and liabilities recognised by the Authority. It incorporates all the funds of the Authority, both capital and revenue, with the exception of the Pension Fund and Trust funds.

The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves



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#### Narrative Statement

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'.

#### d) Cash Flow Statement:

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

#### e) Disclosure Notes:

Provides more detail about individual transactions and balances. The supplementary Financial Statements are; The Annual Governance Statement, and the Pension Fund Account.

#### f) 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.

#### **10.** Date of Authorisation of Accounts

The accounts were authorised for issue by the Director of Corporate Resources on the 21 March 2023. This was the last date when events after the Balance Sheet date have been considered.

C TAMBINI DIRECTOR OF CORPORATE RESOURCES 21

MARCH

2023



## **Movement In Reserves Statement**

General Fund Balance	Earmarked Reserves Balance	Total General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	No te
£m	£m	£m	£m	£m	£m	£m	£m	

#### Movement In Reserves During 2021/22

Balance at 31 March 2021 Brought Forward	26.7	175.0	201.7	0.1	1.5	203.3	(77.9)	125.4	
Total Comprehensive Income and Expenditure	19.6	0.0	19.6	0.0	0.0	19.6	339.5	359.1	
Adjustments between accounting basis & funding basis under regulation	(17.0)	49.5	32.5	0.1	(0.8)	31.7	(31.7)	0.0	9
Increase/ (Decrease) in Year	2.6	49.5	52.1	0.1	(0.8)	51.3	307.7	359.1	
Balance at 31 March 2022 Carried Forward	29.3	224.5	253.8	0.2	0.7	254.6	229.8	484.5	

#### Movement In Reserves During 2020/21 (Restated)

Balance at 31 March 2020 Brought Forward	27.0	128.8	155.8	0.1	3.4	159.3	288.3	447.6	
Reporting of schools budget deficit to new adjustment account wef 1.4.20	4.1	0.0	4.1	0.0	0.0	4.1	(4.1)	0.0	
Prior Period adjustment	0.0	0.0	0.0	0.0	0.0	0.0	(196.9)	(196.9)	8
Restated Balance at 1 April 2020	31.1	128.8	159.9	0.1	3.4	163.4	87.4	250.7	
Total Comprehensive Income and Expenditure	48.4	0.0	48.4	0.0	0.0	48.4	(173.7)	(125.3)	
Adjustments between accounting basis & funding basis under regulation	(52.7)	46.2	(6.5)	0.0	(1.9)	(8.4)	8.4	0.0	9
Increase/ (Decrease) in Year	(4.3)	46.2	41.8	0.0	(1.9)	40.0	(165.3)	(125.3)	



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			Primary S	tatements				
Balance at 31 March 202 Carried Forward	<sup>1</sup> 26.7	175.0	201.7	0.1	1.5	203.3	(77.9)	125.4

## **Comprehensive Income and Expenditure Statement**

Restated 2020/21		/21			2021/22	
Gross Expenditure	Gross Income	Net Expenditure	Note	Gross Expenditure	Gross Income	Net Expenditure
£m	£m	£m		£m	£m	£m
2	2	2	CONTINUING SERVICES	2	2	2
277.0	(140 5)	177 7		200 7	(140 5)	150.2
277.8 20.2	(140.5) (7.7)	137.3 12.5	Adults and Communities Chief Executive's	299.7 22.9	(149.5) (6.7)	150.2 16.2
327.6	(213.9)	113.8	Children and Family Services	370.5	(231.4)	139.1
88.5	(35.8)	52.7	Corporate Resources	102.0	(46.9)	55.1
128.8	(34.9)	93.9	Environment and Transport	127.2	(23.7)	103.5
34.2	(34.0)	0.2	Public Health	39.0	(47.0)	(8.0)
1.5	(3.3)	(1.8)	Central Items	0.3	(3.4)	(3.1)
1.5	(3.3)	(1.0)		0.0	(311)	(311)
878.7	(470.1)	408.6	NET COST OF SERVICES	961.7	(508.7)	453.0
			Other Operating Expenditure			
			(Excluding transfer of			
1.2	(0.2)	1.0	Academies)	0.3	(0.5)	(0.2)
			Other Operating Expenditure		0.0	2.5
0.0	0.0	0.0	(Transfer of Academies)	3.5	0.0	3.5
			Financing and Investment			
57.7	(33.0)	24.7	Income and Expenditure	62.2	(37.4)	24.8
			Taxation and Non-specific			
0.0	(482.6)	(482.6)	Grant Income	0.0	(500.6)	(500.6)
010	(10210)	(10210)		0.0	(00010)	(00010)
		(48.4)	(SURPLUS) / DEFICIT ON PROVISION OF SERVICES			(19.6)
			Items that will not be reclassified to the (surplus) provision of services:	or deficit on t	he	
		(31.8)	Surplus on Revaluation of Property, Plant and Equi	pment	(note 17)	(27.0)
		205.5	Remeasurement of the Net Defined Benefit Liabilit	y/(Asset)	(note 16)	(312.5)
			Total Items that Will Not Be Reclassified to the (Su			
		173.7	Provision of Services	(339.5)		
		125.3	TOTAL COMPREHENSIVE (INCOME) AND EXPENDI	TURE		(359.1)



#### **Primary Statements**

## **Balance Sheet**

Restated 1 April 2020	Restated 31 March 2021		Note	31 March 2022
£m	£m		Note	£m
372.0	442.6	Land and Buildings	17	446.4
10.5	442.0 9.9	Vehicles, Plant, Furniture & Equipment	17	13.8
407.2	428.1	Infrastructure Assets	17	439.5
11.3	11.3	Community Assets	17	11.3
77.8	65.1	Assets Under Construction	17	70.0
2.3	0.9	Surplus Assets	17	2.9
881.1	957.9	Total Property, Plant and Equipment	1,	983.9
1.4	1.7	Investment Property	19	1.8
4.7	4.7	Heritage Assets	18	4.7
2.5	3.9	Intangible Assets	17	2.8
55.1	50.9	Long Term Investments	20	61.7
30.8	28.7	Long Term Debtors	22	27.1
975.6	1,047.8	TOTAL NON-CURRENT ASSETS		1082.0
1.7	0.2	Assets Held for Sale	17	10.2
1.6	1.3	Inventories	21	1.8
111.7	139.7	Short Term Debtors	23	126.1
46.7	98.4	Cash and Cash Equivalents	24	112.8
185.8	210.2	Short Term Investments	20	290.5
347.5	449.8	TOTAL CURRENT ASSETS		541.4
(3.7)	(3.7)	Short Term Borrowing	20	(3.7)
(132.8)	(195.9)	Short Term Creditors	26	(191.8)
(14.1)	(12.5)	Short Term Capital Grants Receipts in Advance	36	(8.5)
(0.1)	(0.1)	Short Term Finance Lease Liabilities	40	(0.1)
(2.7)	(3.4)	Short Term Provisions	27	(5.8)
(153.4)	(215.6)	TOTAL CURRENT LIABILITIES		(209.9)
(265.9)	(265.3)	Long Term Borrowing	20	(264.8)
(1.1)	(1.0)	Long Term Finance Lease Liabilities	40	(1.0)
(5.5)	(7.2)	Long Term Creditors	25	(7.0)
(4.7)	(3.3)	Long Term Provisions	27	(1.8)
(606.6)	(835.6)	Net Pensions Liability	10	(576.4)
(35.3)	(44.3)	Long Term Capital Grants Receipts in Advance	36	(78.0)
(919.1)	(1,156.7)	TOTAL NON-CURRENT LIABILITIES		(929.0)
250.6	125.3	NET ASSETS / (LIABILITIES)		484.5
27.0 128.9	26.7 175.0	General Fund Earmarked Revenue Reserves	11 12	29.3 224.5
0.1	0.1	Capital Receipts Reserve	12	0.2
3.4	1.5	Capital Receipts Reserve		0.2
159.4	203.3	TOTAL USABLE RESERVES		254.7
159.4			10	
187.9 518.4	215.0 572.6	Revaluation Reserve Capital Adjustment Account	10 10	230.9 612.2
(4.5)	(4.2)	Financial Instruments Adjustment Account	10	(4.0)
(606.6)	(4.2) (835.6)	Pension Reserve	10	(576.4)
1.8	(833.0)	Collection Fund Adjustment Account	10	(1.1)
(5.8)	(6.7)	Accumulated Absences Account	10	(7.5)
0.0	(0.7)	Dedicated Schools Grant Adjustment Account	10	(24.3)
91.2	(11.1)	TOTAL UNUSABLE RESERVES	10	(24.3) <b>229.8</b>
250.6	125.3	TOTAL ONOSABLE RESERVES		484.5
230.0	123.3			-104.J



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#### **Primary Statements**

## **Cash Flow Statement**

Restated 2020/21			2021/	22
£m		Note	£m	£m
(48.4)	Net (surplus) or deficit on the provision of services	1		(19.6)
(110.0)	Adjustments to net (surplus) or deficit on the provision of services for non-cash movements	28	(137.2)	
50.3	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	28	55.3	
(108.1)	Net cash flows from Operating Activities			(101.5)
55.9	Net cash flows from Investing Activities	29		86.6
0.5	Net cash flows from Financing Activities	30		0.5
(51.7)	Net (Increase)/Decrease in Cash and Cash Equivalents			(14.4)
(46.7)	Cash and Cash Equivalents at the Beginning of the Reporting Period	24		(98.4)
(98.4)	Cash and Cash Equivalents at the End of the Reporting Period	24		(112.8)

The notes to the financial statements are detailed on pages 13 - 79.



#### **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 and Funding Analysis Statement 2021/22**

Service Segment	As Reported to the Cabinet May 2022	Adjustments to arrive at the net amount funded from General Fund	Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis	Net Expenditure in the CIES
	£m	£m	£m	£m	£m
Adults and Communities Department	160.1	(18.6)	141.5	8.7	150.2
Chief Executive's Department	12.9	(0.1)	12.8	3.4	16.2
Children and Family Services Department	86.8	1.0	87.8	51.4	139.1
Corporate Resources Department	36.5	0.6	37.1	18.0	55.1
Environment and Transport Department	81.0	0.0	81.0	22.4	103.4
Public Health Department	(1.3)	(7.7)	(9.0)	1.0	(8.0)
Central Items	34.8	(15.1)	19.7	(22.8)	(3.1)
Net Cost of Services	410.8	(39.9)	370.9	82.0	453.0
Other Income and Expenditure	(418.7)	(4.3)	(423.0)	(49.5)	(472.5)
(Surplus) or Deficit	(7.9)	(44.2)	(52.1)	32.5	(19.6)
Opening General Fund Balance					(201.7)
Less /Plus Surplus or (Deficit) on General Fund Balance in Year					(52.1)
Closing General Fund Balance					(253.8)

#### Expenditure and Funding Analysis Statement 2020/21 (restated)

Service Segment	As Reported to the Cabinet June 2021	Adjustments to arrive at the net amount funded from General Fund	Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis	Net Expenditure in the CIES
	£m	£m	£m	£m	£m
Adults and Communities Department	156.7	(22.3)	134.4	2.9	137.3
Chief Executive's Department	14.0	(2.8)	11.2	1.3	12.5
Children and Family Services Department	86.6	(1.7)	84.9	28.8	113.8
Corporate Resources Department	40.0	(2.1)	37.9	14.8	52.7
Environment and Transport Department	76.8	(1.9)	74.9	19.0	93.9
Public Health Department	(0.7)	0.8	0.1	0.2	0.3
Central Items	52.3	(25.9)	26.4	(28.3)	(1.9)
Net Cost of Services	425.7	(55.9)	369.8	38.8	408.6
Other Income and Expenditure	(425.7)	14.0	(411.7)	(45.3)	(457.0)
(Surplus) or Deficit	0.0	(41.8)	(41.8)	(6.5)	(48.4)
Restated General Fund Balance 1.4.20					(159.9)
Less /Plus Surplus or (Deficit) on General Fund Balance in Year				(41.8)	



Closing General Fund Balance

(201.7)

## 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 2021/22

Adjustments from the GCF to arrive at the CIES	Adjustments for Capital Purposes £m	Adjustments for Pensions Purposes £m	Other Adjustments £m	Total Adjustments £m
Service Segment				
Adults & Communities Department	2.2	6.5	0.0	8.7
Chief Executive's Department	1.3	2.1	0.0	3.4
Children and Family Services Department	24.3	13.2	13.9	51.4
Corporate Resource Department	9.9	8.1	0.0	18.0
Environment & Transport Department	17.0	5.4	0.0	22.4
Public Health Department	0.0	0.9	0.0	0.9
Central Items	(22.8)	0.0	0.0	(22.8)
Net Cost of Services	31.9	36.2	13.9	82.0
Other Income and Expenditure from the				
Expenditure and Funding Analysis	(67.5)	17.1	0.9	(49.5)
Difference between the GCF surplus or deficit and the CIES surplus or deficit on				
provision of services	(35.7)	53.3	14.9	32.5

#### Adjustments Between Funding and Accounting Basis 2020/21 (Restated)

1.0 0.6 17.2 11.9 17.4	1.6 0.7 4.8 2.5 1.4	0.3 0.1 6.8 0.3	2.9 1.4 28.8 14.7
0.6 17.2 11.9	0.7 4.8 2.5	0.1 6.8 0.3	1.4 28.8 14.7
17.2 11.9	4.8 2.5	6.8 0.3	28.8 14.7
11.9	2.5	0.3	14.7
_	-		
17.4	1 /	0.2	
	1.4	0.2	19.0
0.0	0.2	0.1	0.3
(27.7)	0.0	(0.6)	(28.3)
20.4	11.2	7.2	38.8
(59.5)	14.0	0.2	(45.3)
	35.3	7.4	(6.5)
	(59.5)	(59.5) 14.0	(59.5) 14.0 0.2





# 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 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.

2020/21 Income from Services £m	Service Segment	2021/22 Income from Services £m	
(143.0)	Adults and Communities Department	(149.5)	
(8.3)	Chief Executive's Department	(6.8)	
(226.5)	Children and Family Services Department	(231.4)	
(38.4)	Corporate Resources Department	(46.9)	
(37.5)	Environment and Transport Department	(23.7)	
(34.0)	Public Health Department	(47.0)	
(4.2)	Central items	(3.4)	
(491.9)	Total Income Analysed on a Segmental Basis	(508.7)	

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



## Note 2: Expenditure and Funding Analysis (b)

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

Restated 2020/21		2021/22
£m		£m
	Expenditure	
305.7	Employee Benefits Expenses	322.1
25.2	IAS 19 and Other Pension Cost Adjustments	54.8
502.1	Other Service Expenses	533.5
59.9	Depreciation, amortisation and impairment	65.4
13.9	Interest Payments	14.2
0.3	Precepts and Levies	0.3
0.7	Loss on Disposal of Non-Current Assets	3.0
907.8	Total Expenditure	993.3
	Income	
(181.9)	Fees, Charges and Other Income	(184.4)
(3.5)	Interest and Investment Income	(3.6)
(384.3)	Council Tax and NNDR	(410.0)
(386.5)	Government Grants and Contributions	(414.9)
(956.2)	Total Income	1,012.9
(48.4)	(Surplus) or Deficit on Provision of Services	(19.6)
(48.4)	(Surplus) of Deficit of Provision of Services	(19.6)

## 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:

- Annual improvements to IFRS Standards; four changed standards (first time adoption, onerous contracts, leases, agriculture)
- Property, Plant and Equipment: proceeds before intended use.

These changes are not expected to have a material impact on the Council's statements of accounts.

#### **Note 4: Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in Note 47, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made are:

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



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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 2022 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	Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non- current assets. The Council's external valuers provided valuations as at 31 March 2022 for over 50% of its operational portfolio. The remaining balance of operational properties were also reviewed to ensure values reflect current values.	The net book value of non-current assets subject to potential revaluation is £446m. A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement.
	The carrying value of Property, Plant and Equipment at 31 March 2022 is £984m.	If the value of the Council's operational properties were to reduce by 10%, this would result in a charge to the Comprehensive Income and Expenditure Statement and or Revaluation reserve of approximately £45m
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. An independent firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied, although ultimate responsibility for forming these assumptions remains with the Authority. The carrying value of the net Pension Liability at 31 March 2022 is £576m.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £43m. A one year increase in member life expectancy compared with the assumption used would increase the liabilities by £90m. However, the assumptions interact in complex ways. During 2021/22, the Authority's Actuary advised that the net pension liability had decreased by £144m as a result of estimates being corrected as a result of experience and decreased by £169m attributable to updating of the assumptions.

#### Note 6: Material Items of Income and Expense

During 2021/22 there has been a material change in how services have been operated and how income is generated due to the COVID-19 pandemic. To compensate the Council has received additional Government grants, which are reflected in note 36.

## Note 7: Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Director of Corporate Resources on 21 March 2023. 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 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information (where known).



# **Note 8: Prior Period Adjustments**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. 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. 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.

#### Asset Valuations – Land Leased to Academies

During the 2021/22 audit the Council and the external auditor have reviewed the valuation method used for school land that are now academies. The Council provides the academies with a 125 year lease but retains legal title to the land. Following this review the Council and the auditor have now concluded that the previously agreed valuation method – to use existing use value – is no longer appropriate and instead these land assets will be revalued to £1 to reflect the restricted use to the authority.

The values of these assets are deemed material and so a prior period adjustment has been applied to the accounts. The overall effect of the prior period adjustment is as follows:

Balance Sheet: Closing balance of Land and Buildings has reduced by £197m in 2019/20 and £191m in 2020/21.

Balance Sheet: Closing balance of Unusable Reserves has reduced by £197m in 2019/20 and £191m in 2020/21.

*Cl&ES*: The Net Cost of Services in 2019/20 has decreased by £2.4m for Chldren and Family Services.

Cl&ES: (Surplus)/Deficit on revaluation of non-current assets in 2019/20 has decreased by £3.7m.

MIRS: Unusable reserves as at 31 March 2021 have decreased by £191m

 $\it MIRS$ : Total authority reserves as at 31 March 2021 have decreased by £191m

*Cashflow*: The net (surplus) or deficit on the Provision of Services has increased by £2.4m during 2020/21

*Cashflow*: The adjustments to net (surplus) or deficit on the Provision of Services for non-cash movements has reduced by £2.4m during 2020/21.

The following tables show the adjustments made.

Restated Balance Sheet	Previous	Asset	Restated	Previous	Asset	Restated
	Balance	Revaluatio	Balance	Balance	Revaluatio	Balance
	31 March	ns (Note	1 April	31 March	ns (Note	31 March
	20	17)	2020	21	17)	21
	£m	£m	£m	£m	£m	£m
Property, Plant & Equipment	568.9	(196.9)	372.0	633.4	(190.8)	442.6
Net Assets	447.6	(196.9)	250.6	316.1	(190.8)	125.3
Unusable Reserves	288.2	(196.9)	91.2	112.8	(190.8)	(78.0)
Total Reserves	447.6	(196.9)	250.6	316.1	(190.8)	125.3

Restated CIES	Previous	Asset	Restated
	Balance	Revaluations	Balance
	Net	(Note 17)	Net Expenditire
	Expenditure	£m	31 March 21
	31 March 21		£m
	£m		
Children & Family Services	116.2	(2.4)	113.8
Net Cost of Services	411.0	(2.4)	408.6
(Surplus) / Deficit on Provision of Services	(45.9)	(2.4)	(48.4)
Surplus on Revaluation of Property, Plant & Equipment	(28.1)	(3.7)	(31.8)
Total Items that will not be reclassified to the (surplus) or deficit			
on the Provision of Services	177.4	(3.7)	173.7
Total Comprehensive (Income) and Expenditure	131.5	(6.2)	125.3
Restated MIRS	Total Usable	Unusable	Total



	Reserves	Reserves	Authority
			Reserves
	£m	£m	£m
Balance as at 31 March 2020	159.3	288.3	447.6
Reporting of schools budget deficit to new adjustment account			
wef 1.4.20	4.1	(4.1)	0
Prior Period Adjustment (Note 8)	0	(196.9)	(196.9)
Restated as at 1 April 2020	163.4	87.4	250.7
Total Comprehensive Income and Expenditure	45.9	(177.3)	(131.4)
Prior Period Adjustment (Note 8)	2.5	3.6	6.1
Restated Comprehensive Income and Expenditure as at 31	48.4	(173.7)	(125.3)
March 21			
Adjustments between accounting basis and funding basis under			
regulation (Note 8)	(6.1)	6.1	0
Prior Period Adjustment (Note 8)	(2.3)	2.3	0
Restated Adjustments between accounting basis and funding			
basis under regulation (Note 8) as at 31 March 2021	(8.4)	8.4	0
Increase / (Decrease) in Year	40.0	(165.3)	(125.3)
Restated Balance at 31 March 2021 carried forward	203.3	(77.9)	125.4

Restated Cashflow	Previous	Asset	Restated
	Balance	Revaluations	Balance
	31 March 21	(Note 17)	31 March 21
	£m	£m	£m
Net (surplus) or deficit on the provision of services	(45.9)	(2.4)	(48.4)
Adjustments to net (surplus) or deficit on the provision of services			
for non-cash movements	(112.5)	2.4	(110.0)
Adjustments for items included in the net (surplus) or deficit on			
the provision of services that are investing and financing activities	50.3	0.0	50.3
Net cash flows from Operating Activities	(108.1)	0.0	(108.1)

The primary statements and notes to the accounts have been updated for these changes.

# Note 9: 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.



## **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.

Usable Reserves				
2021/22	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Usable Reserves
	£m	£m	£m	£m
Adjustments to the Revenue Resources	1			
Amounts by which income and expenditure included in the from revenue for the year calculated in accordance with sta			diture Statement	are different
Pension Costs	53.3			53.3
Financial Instruments	(0.3)			(0.3)
Council Tax and NDR	(6.9)			(6.9)
Accumulated Absences	0.8			0.8
Transferred to DSG Adjustment Account	13.2			13.2
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	61.0		(0.8)	60.2
Total Adjustments to Revenue Resources	121.2		(0.8)	120.3
Transfer of Non-Current asset sale proceeds from revenue to the Capital Receipts Reserve	(7.2)	7.2		0.0
Statutory provision for the repayment of debt (MRP)	(18.2)			(18.2)
Principal repayments of transferred Debt	1.4			1.4
Capital expenditure financed from revenue balances	(5.9)			(5.9)
Total Adjustments between Revenue and Capital Resources	(29.9)	7.2		(22.8)
Use of the Capital Receipts Reserve to finance capital expenditure		(7.1)		(7.1)
Application of capital grants to finance capital expenditure	(58.7)			(58.7)
Total Adjustments to Capital Resources	(58.7)	(7.1)		(65.8)
Total Adjustments	32.5	0.1	(0.8)	31.7



	Usable Reserves			
2020/21	General Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Movement in Usable Reserves £m
Adjustments to the Revenue Resources				I
Amounts by which income and expenditure included in the	Comprehensive In	come and Expen	diture Statement	are different
from revenue for the year calculated in accordance with sta	tutory requiremen	nts:		
Pension Costs	23.6			23.6
Financial Instruments	(0.2)			(0.2)
Council Tax and NDR	9.8			9.8
Accumulated Absences	0.9			0.9
Transferred to DSG Adjustment Account	7.1			7.1
Reversal of entries included in the Surplus or Deficit on				
the Provision of Services in relation to capital expenditure	50.1		(1.9)	48.2
Total Adjustments to Revenue Resources	91.2		(1.9)	89.3
Adjustments between Revenue and Capital Resources				
Transfer of Non-Current asset sale proceeds from revenue				
to the Capital Receipts Reserve	(1.2)	1.2		0.0
Statutory provision for the repayment of debt (MRP)	(6.2)			(6.2)
Principal repayments of transferred Debt & Local				
Authority Mortgage Scheme (LAMS)	1.4			1.4
Capital expenditure financed from revenue balances	(31.9)			(31.9)
Total Adjustments between Revenue and Capital Resources	(37.9)	1.2	0.0	(36.7)
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital				
expenditure		(1.2)		(1.2)
Application of capital grants to finance capital expenditure	(59.9)			(59.9)
Total Adjustments to Capital Resources	(59.9)	(1.2)	0.0	(61.1)
Total Adjustments	(6.5)	(0.0)	(1.9)	(8.4)



## 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.

Restated 2020/21 £m		2021/22 £m
329.0	Balance at 1 April	215.0
(141.1)	Prior Period Adjustment (Note 8)	0
187.9	Restated Balance 1 April	215.0
41.8	Upward revaluation of assets	46.9
(10.1)	Downward revaluation of assets losses not charged to the Surplus or (Deficit) on the Provision of Services	(19.8)
(0.9)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(7.5)
(3.7)	Difference between fair value depreciation and historical cost depreciation	(3.7)
215.0	Balance at 31 March	230.9

## **Capital Adjustment Account**

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

The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and subsequent costs. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 8 to the accounts provide details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

Restated 2020/21		2021/22
£m		£m
574.3	Balance at 1 April	572.6
(55.8)	Prior Period adjustment (Note 8)	0
518.5	Restated Balance 1 April	572.6



	Reversal of items relating to capital expenditure debited or credited to	
	Comprehensive Income and Expenditure:	
(23.8)	Charges for depreciation of non-current assets	(36.7)
(16.0)	Revaluation losses on Property, Plant and Equipment	(9.6)
(0.7)	Amortisation of intangible assets	(1.0)
(3.9)	Revenue expenditure funded from capital under statute	(3.6)
(0.9)	Amounts of non-current assets written off on disposal or sale as part of the	(2.6)
	gain/loss on disposal to the CIES	
	Capital financing applied in year:	
1.2	Use of the Capital Receipts Reserve to finance new capital expenditure	7.1
59.8	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	58.8
1.8	Application of grants to capital financing from the Capital Grants Unapplied Account	0.8
6.2	Statutory provision for the financing of capital investment charged against the General Fund Balance	18.2
(0.5)	Fair value profit and loss valuations	3.7
(1.4)	Principal Repayments of transferred Debt	(1.4)
31.9	Capital expenditure charged against the General Fund Balance	6.0
0.4	Movements in the Fair Value of Investment Properties	0.0
572.6	Balance at 31 March	612.3

## **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.

2020/21		2021/22
£m		£m
(4.5)	Balance at 1 April	(4.2)
•	Amounts by which finance costs charged to the Comprehensive Income and Expendi different from finance costs chargeable in the year in accordance with statutory requ	
0.5	Annual write down of premiums paid on rescheduled debt	0.4
(0.2)	Annual write down of discounts received on rescheduled debt	(0.2)
(4.2)	Balance at 31 March	(4.0)

## **Pensions Reserve**



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#### Notes to the Accounts

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for postemployment 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.

2020/21 £m		2021/22 £m
(606.6)	Balance at 1 April	(835.6)
(206.0) (68.3) 45.3	Remeasurements of the net defined benefit liability Reversal of items relating to retirement benefits debited or credited to the Surplus or (Deficit) on the Provision of Services in the CIES Employer's pensions contributions and direct payments to	312.8 (101.2) 47.6
(835.6)	pensioners payable in the year Balance at 31 March	(576.4)

## **Collection Fund Adjustment Account**

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and nondomestic 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).

2020/21 £m		2021/22 £m
1.8	<b>Balance at 1 April</b> 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	(8.0)
(9.8)	requirements.	6.9
(8.0)	Balance at 31 March	(1.1)



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## **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.

2020/21 £m		2021/22 £m
(5.8)	Balance at 1 April	(6.7)
5.8	Settlement or cancellation of accrual made at the end of the preceding year	6.7
(6.7)	Amounts accrued at the end of the current year	(7.5)
(0.9)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(0.8)
(6.7)	Balance at 31 March	(7.5)

## **Dedicated Schools Grant Adjustment Account**

Where a local authority's schools show a budget deficit relating to its accounts for a financial year, this account now absorbs that deficit. This applies to financial years beginning 1 April 2020, 1 April 2021 and 1 April 2022 only, as the Council cannot charge the amount of the deficit to the General Fund revenue account. The issue can only be resolved by closing the deficit. This treatment is time-limited to provide the Government and the Council with time to introduce budgetary and financial management strategies to reduce the deficit.

2020/21 £m		2021/22 £m
0.0	Balance at 1 April	(11.1)
(4.1)	Restatement of opening balance	0.0
	School budget deficit transferred from General Fund in	
(7.0)	accordance with statutory requirements	(13.2)
(11.1)	Balance at 31 March	(24.3)

# **Note 11: General Fund Balance**

The balance of the fund includes the following sums:

2020/21 £m		2021/22 £m
9.7	Delegated Funding for Schools	11.3
0.0	Carry forward of underspend across other services	0.0
9.7	Earmarked Reserves as at 31 March	11.3
17.0	Uncommitted balance	18.0
26.7	Balance at 31 March	29.3



## Note 12: Movements in Earmarked Revenue Reserves

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

	Balance at 31 March 2020	Transfers From Revenue	Transfers To Revenue	Balance at 31 March 2021	Transfers From Revenue	Transfers To Revenue	Balance at 31 March 2022
	£m	£m	£m	£m	£m	£m	£m
Insurance	12.0	1.8	(0.0)	13.8	1.9	0.0	15.7
Renewals of Vehicles & Equipment	3.9	1.0	(0.7)	4.2	0.6	(0.8)	4.0
Children & Family Services							
- C&FS Developments	1.1	0.0	(0.1)	1.0	1.7	(0.6)	2.1
- Cars Developments	1.1	0.0	(0.1)	1.0	1.7	(0.0)	2.1
Adults & Communities							
- Adult & Social Care Developments	5.0	1.0	(0.4)	5.6	0.5	(3.8)	2.3
- Health & Social Care Outcomes	0.8	9.8	(1.7)	8.9	9.0	(3.0)	14.9
Public Health	0.5	1.3	(0.0)	1.8	9.7	(0.2)	11.3
Public Health - Leicestershire & Rutland Sport	1.5	0.0	(0.1)	1.4	0.0	0.0	1.4
Environment & Transport							
- Commuted Sums	3.1	0.8	(0.8)	3.1	0.8	(0.6)	3.3
- LLITM	2.2	0.0	(0.1)	2.1	0.0	(0.5)	1.6
Corporate							
- Capital Financing	53.6	43.2	(32.4)	64.4	58.2	(11.7)	110.9
- Transformation Fund	7.5	2.2	(0.5)	9.2	1.9	(3.6)	7.5
- Broadband	3.4	2.7	(3.7)	2.4	0.5	(0.5)	2.4
- Business Rates Retention	1.6	7.5	(1.0)	8.1	3.3	(7.5)	3.9
- Budget Equalisation	0.0	24.0	(0.0)	24.0	7.9	0.0	31.9
- Carbon Neutral Investment Fund	0.0	0	(0.0)	0.0	2.0	0.0	2.0
Other (reserves below £1m at 31 March 22)	32.7	16.4	(24.1)	25.0	9.0	(24.7)	9.3
TOTAL	128.9	111.7	(65.6)	175.0	107.0	(57.5)	224.5

The following are the main reserves held by the Authority, as at 31<sup>st</sup> March 2022:

#### 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 at 31 March 2022 and a reserve to meet future claims.

#### **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.

#### **Health & Social Care Outcomes**

Reserve used in conjunction with Health partners across Leicestershire.

#### **Public Health**

To fund Public Health initiatives within Leicestershire. The Department has a detailed plan of public health initiatives, including those relating to Covid-19, to be implemented over the next two to three years.



#### **Capital Financing**

Revenue contributions to fund capital expenditure in future years.

#### **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.

#### **Budget Equalisation**

Funding set aside to manage variations in funding across financial years.

# Note 13: Other Operating Expenditure

2020/21 £m		2021/22 £m
0.3	Flood Defence Levies	0.3
0.7	(Gains)/losses on the disposal of non-current assets (Excluding Academies)	(0.5)
0.0	(Gains)/losses on the disposal of Academies	3.5
1.0	Total	3.3

# Note 14: Financing and Investment Income and Expenditure

2020/21 £m		2021/22 £m
13.9	Interest payable and similar charges	14.0
14.0	Net Pensions interest cost and expected return on pensions assets	17.1
(3.1)	Interest receivable and similar income	(3.6)
(0.3)	Income & Expenditure in relation to investment properties and changes in their fair value	0.0
0.2	Gains/losses on financial instruments classified as fair value through profit or loss	(2.8)
0.0	Other investment income & Expenditure	0.1
24.7	Total	24.8

# Note 15: Taxation and Non-Specific Grant Incomes

2020/21		2021/22
£m		£m
(318.3)	Council tax income	(339.4)
(66.0)	Non-domestic rates	(70.6)
(38.4)	Non ring-fenced government grants	(32.0)
(59.9)	Capital grants and contributions	(58.7)
(482.6)	Total	(500.7)



# **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 need 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 statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note 47.

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 required to be made 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 31<sup>st</sup> March 2022 has increased since the previous year. The discount rate used in the valuation increased (in line with AA rated corporate bond yields) from 2.0% to 2.7%, which had the impact of increasing the present value of future liabilities. Overall the net liability within the LGPS decreased to £576m (31 March 2021, £836m).

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

2020/21 £m		2021/22 £m
	<b>Comprehensive Income and Expenditure Statement</b> Cost of Services	
	Service cost comprising:	
54.0	Current service cost	84.7
0.3	Past service costs	0.1
0.0	Settlements and Curtailments	(0.7)
	Financing and Investment Income and Expenditure:	
14.0	Net Interest expense	17.1
	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of	
68.3	Services	101.2



	Notes to the Accounts				
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement				
(273.5)	Remeasurement of the net defined benefit liability comprising: Return on planned assets (excluding the amount included in the net interest expense)	(144.8)			
28.3 466.9 (15.7)	Actuarial gains/losses arising from changes in demographic assumptions Actuarial gains/losses arising from changes in financial assumptions Other	(12.5) (156.7) 1.7			
274.3	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(211.1)			
23.6	<b>Movements in Reserves Statement</b> Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the code	53.3			
42.4	Actual amount charged against the General Fund Balance for Pensions in the year Employers contributions payable to scheme	45.2			
2.9	Unfunded benefits	2.8			
45.3	Total amount charged against the General Fund Balance for Pensions in the year	48.0			

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 2022 was a loss of £576m and at 31 March 2021 was a loss of £867m.

## 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:

2020/21 £m		2021/22 £m
2.00		2.00
(1,813.7)	As at 1 April	(2,342.4)
(54.0)	Current service cost	(84.7)
(41.8)	Interest Cost	(47.2)
(10.2)	Contributions by scheme participants	(10.5)
	Remeasurement (gains) and losses:	
(28.3)	Changes in demographic assumptions	12.5
(466.9)	Changes in financial assumptions	156.7
15.7	Other	(1.3)
	Past service costs:	
(0.3)	(Losses) / Gains on curtailments	(0.1)
57.1	Benefits paid	58.5
0.0	Liabilities extinguished on settlements	1.3
(2,342.4)	As at 31 March	(2,257.2)



2020/21 £m		2021/22 £m
1,207.1	As at 1 April	1,506.9
27.8	Interest Income	30.1
	Remeasurement gain/(loss):	
273.5	Return on plan assets	144.8
42.4	Employer contributions	44.7
10.2	Contributions by scheme participants	10.5
(57.1)	Benefits paid	(58.5)
3.0	Contributions in respect of unfunded benefits	2.9
0.0	(Losses) / Gains on settlements	(0.6)
1,506.9	As at 31 March	1,680.8

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

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

Local Government Pension Scheme assets comprised:

2020/21			2021,	/22
	% of total			% of total
£m	assets		£m	assets
		Equity Securities:		
26.2	2%	Other	14.0	1%
		Debt Securities:		
127.6	8%	UK Government	84.4	5%
19.5	1%	Other	3.1	0%
69.5	5%	Private Equity	112.4	7%
		Real Estate:		
112.7	8%	UK Property	129.3	8%
		Investment Funds and Unit		
		Trusts:		
605.2	40%	Equities	773.9	46%
63.7	4%	Bonds	0.0	0%
0.1	0%	Hedge Funds	0.0	0%
53.3	4%	Commodities	42.2	3%
79.3	5%	Infrastructure	87.9	5%
306.6	20%	Other	345.2	20%
		Derivatives		
		Interest rate		
(1.9)	0%	Foreign Exchange	3.5	0%
45.1	3%	Cash and Cash Equivalents	84.9	5%
1,506.9	100%	As at 31 March	1,680.8	100%



The scheme history of the pension fund is as follows:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Present value of liabilities:	(1,832.6)	(2,043.9)	(1,813.7)	(2,342.4)	(2,257.2)
Fair value of assets:	1243.4	1,302.2	1,207.1	1,506.9	1,680.8
Surplus / (Deficit)	(589.2)	(741.7)	(606.6)	(835.5)	(576.4)

The liability shows the underlying commitment that the Authority has in the long run to pay post-employment (retirement) benefits. This total liability of £576m as 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.

#### 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 31<sup>st</sup> March 2019.

The principal assumptions used by the actuary have been:

31 March		31 March
2021		2022
	Mortality assumptions (in years):	
	Longevity at 65 for current pensioners:	
21.7	<ul> <li>Men</li> </ul>	21.5
24.2	Women	24.0
22.6	Longevity at 65 for future pensioners:	22.4
22.6	<ul> <li>Men</li> </ul>	22.4
25.9	<ul> <li>Women</li> </ul>	25.7
3.4%	Rate of inflation	3.7%
3.4%	Rate of increases in salaries	3.7%
2.9%	Rate of increase in pensions	3.2%
2.0%	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 2022:

	Approximate % Increase in Employer Liability	Approximate monetary amount (£m)
0.1% decrease in Real Discount Rate	2%	42.8
1 year increase in member life expectancy 0.1% increase in the Salary Increase Rate	4% 0%	90.3 3.7
0.1% increase in the Pension Increase Rate	2%	38.8

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 a constant 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 2019.

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 £46.1m expected contributions to the scheme in 2022/23. The weighted average duration of the defined benefit obligation for scheme members is 19 years, (2020/21, 19 Years).



## 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 2021/22 the Authority paid £10.7m (2020/21 £10.5m) to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 23.7% (2020/21 23.7%) of teachers' pensionable pay. This is also the amount recognised as an expense in the Comprehensive Income and Expenditure Statement with regards to this scheme. In addition, the Authority is responsible for all pension payments relating to pension enhancements for added years' service it has awarded, together with the related increases. In 2021/22 these amounted to £1.9m (2020/21 £2.0m), representing 4.6% (2020/21 4.8%) 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 2021/22 the Authority paid £0.1m to the NHS pension scheme (£0.1m in 2020/21) in respect of public health staff. This amount is recognised as an expense in the CIES under the Public Health services line.



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

	Land and Buildings*	Vehicles Plant and Equipment	Community Assets	Assets Under Construction	Surplus Assets	Total	Intangible Assets	Assets Held for Sale
	£m	£m	£m	£m	£m	£m	£m	£m
Gross Carrying Amount as at 31 March 2021	456.7	26.9	11.3	65.1	0.9	560.9	7.4	0.2
Additions	5.9	6.8	0.0	34.5	0.0	47.2	0.0	0.0
Capital Expenditure Not Increasing Value Revaluation Increases/	(14.0)	(0.2)	0.0	0.0	0.0	(14.2)	0.0	0.0
(Decreases) recognised in the Revaluation Reserve	23.1	0.0	0.0	0.0	2.0	25.1	0.0	0.0
Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit	(12.2)	0.0	0.0	0.0	0.0	(12.2)	0.0	0.0
Disposals	(14.7)	0.0	0.0	0.0	0.0	(14.7)	0.0	(0.2)
Asset Reclassifications	15.1	0.1	0.0	(29.6)	0.0	(14.4)	0.0	10.2
Gross Carrying Amount as at 31 March 2022	459.9	33.6	11.3	70.0	2.9	577.7	7.4	10.2
Accumulated Depreciation as at 1 April 2021	(14.1)	(17.0)	0.0	0.0	0.0	(31.1)	(3.5)	0.0
Depreciation	(8.5)	(2.8)	0.0	0.0	0.0	(11.3)	(1.1)	0.0
Depreciation written out to the Revaluation Reserve	2.0	0.0	0.0	0.0	0.0	2.0	0.0	0.0
Depreciation written out to the Surplus/ Deficit	0.7	0.0	0.0	0.0	0.0	0.7	0.0	0.0
Impairment Losses/(reversals) recognised in the Surplus/Deficit on the provision of services	6.1	0.0	0.0	0.0	0.0	6.1	0.0	0.0
Derecognition Depreciation	0.3	0.0	0.0	0.0	0.0	0.3	0.0	0.0
Accumulated Depreciation as at 31 March 2022	(13.5)	(19.8)	0.0	0.0	0.0	(33.3)	(4.6)	0.0
Net Book Value as at 31 March 2022	446.4	13.8	11.3	70.0	2.9	544.4	2.8	10.2

\*Includes Travellers' Sites valuation of £1.8m not shown under Council Dwellings due to materiality.



	Land and Buildings*	Vehicles Plant and Equipment	Community Assets	Assets Under Construction	Surplus Assets	Total	Intangible Assets	Assets Held for Sale
	£m	£m	£m	£m	£m	£m	£m	£m
Gross Carrying Amount as at 31 March 2020	580.9	23.9	11.3	77.8	2.4	696.3	5.3	1.7
Prior Period Adjustment (Note 8)	(197.0)	0	0	0	0	(197.0)	0	0
Restated Gross Carrying Amount as at 1 April 2020	383.9	23.9	11.3	77.8	2.4	499.3	5.3	1.7
Additions	38.2	3.2	0.0	23.0	0.0	64.4	0.2	0.0
Capital Expenditure Not Increasing Value	(2.9)	(0.2)	0.0	0.0	0.0	(3.1)	0.0	0.0
Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve	28.6	0.0	0.0	0.0	0.0	28.6	0.0	0.0
Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit	(16.6)	0.0	0.0	0.0	(0.6)	(17.2)	0.0	(0.6)
Disposals	0.0	0.0	0.0	0.0	(0.9)	(0.9)	0.0	(0.9)
Asset Reclassifications	25.5	0.0	0.0	(35.7)	0.0	(10.2)	1.9	0.0
Gross Carrying Amount as at 31 March 2021	456.7	26.9	11.3	65.1	0.9	560.9	7.4	0.2
Accumulated Depreciation as at 1 April 2020	(12.0)	(13.4)	0.0	0.0	(0.1)	(25.5)	(2.8)	0.0
Depreciation	(8.1)	(3.6)	0.0	0.0	0.1	(11.6)	(0.7)	0.0
Depreciation written out to the Revaluation Reserve	3.7	0.0	0.0	0.0	0.0	3.7	0.0	0.0
Depreciation written out to the Surplus/ Deficit	1.2	0.0	0.0	0.0	0.0	1.2	0.0	0.0
Impairment Losses/(reversals) recognised in the Surplus/Deficit on the provision of services	1.1	0.0	0.0	0.0	0.0	1.1	0.0	0.0
Derecognition Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulated Depreciation as at 31 March 2021	(14.1)	(17.0)	0.0	0.0	0.0	(31.1)	(3.5)	0.0
Net Book Value as at 31 March 2021	442.6	9.9	11.3	65.1	0.9	529.8	3.9	0.2

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



## **Capital Commitments**

As of 31 March 2022, the Authority has entered into a number of contracts for the acquisition, construction or enhancement of Property, Plant and Equipment in 2021/22 and future years budgeted to cost £12.7m (commitments at 31 March 2021, £9.4m). The following table outlines the major contracts:

Major Contracts	£m
Rothley Primary School - Phase 2	3.8
RHWS – Kibworth Site Redevelopment	3.4
Hinckley Hub, Hawley Road	2.0
RHWS – Waste Transfer Station Development	1.4
M1 J23 / A512 Scheme	1.1
Rural Broadband Scheme – Phase 3	1.0

## **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. Valuations are carried out by Internal valuers and an external firm of valuers, Bruton Knowles LLP, who are both 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.

	Land and Buildings £m	Surplus Assets £m	Total £m
Carried at Historical Cost:	59.1	0.0	59.1
Valued at Fair Value as at:			
31 March 2022	294.4	2.9	297.3
31 March 2021	17.0	0.0	17.0
31 March 2020	30.7	0.0	30.7
31 March 2019	30.0	0.0	30.0
31 March 2018	15.2	0.0	15.2
Total Cost or Valuation	446.4	2.9	449.3

## **Non-Current Intangible Assets**

The Authority has non-current intangible assets of £2.8m (£3.9m 2020/21). 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 46 for further details concerning fair value and the input hierarchy.

	Level 1	Level 2	Level 3
	Quoted Prices in Active	Other Significant	Significant
	Markets for Identical Assets	Observable Inputs	Unobservable Inputs
	£m	£m	£m
Total - Surplus Properties 2020/21	0.0	0.9	0.0
Total - Surplus Properties 2021/22	0.0	2.9	0.0



## Note 17b: Highway Infrastructure Assets

#### Movements on balances

In accordance with the temporary relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements. The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

	2020/21	2021/22
	£m	£m
Net Book Value (modified historical cost) at 1 April	407.2	428.1
Additions	26.3	21.8
Depreciation	(13.7)	(14.6)
Impairment	0	0
Disposals	0	0
Asset Reclassifications	8.3	4.2
Net book Value at 31 March	428.1	439.5

The authority has determined in accordance with Regulation 30M England of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

## **Note 18: Heritage Assets**

	Historic Buildings	Museum Art Collectio	Art Works Collectio n	Archaeo- logical Collectio	Fashion Collection	Working Life Collection	Civic Collectio n	Total
	£m	n £m	£m	n £m	£m	£m	£m	£m
Net book value as at 31 March 2021	0.4	0.7	2.5	0.4	0.1	0.4	0.2	4.7
Additions	0.0	0.0	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	0.0	0.0
Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve	0.0	0.0	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	0.0	0.0
Net Book Value as at 31 March 2022	0.4	0.7	2.5	0.4	0.1	0.4	0.2	4.7



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Net Book value as at 31								
March 2020	0.4	0.7	2.5	0.4	0.1	0.4	0.2	4.7
Additions	0.0	0.0	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	0.0	0.0
Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve	0.0	0.0	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	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Book Value as at 31 March 2021	0.4	0.7	2.5	0.4	0.1	0.4	0.2	4.7

As per the accounting policy for Heritage Assets within note 47, assets and additions are initially recognised at cost. Revaluations are based on specialist or insurance valuations. Sale proceeds are accounted for in accordance with statutory requirements as these assets would meet the definition of a capital receipt.

## **Heritage Asset Collections:**

#### **Historic Buildings**

This category includes a number of historical ancillary buildings at Snibston Museum and Country Park that were part of the former colliery. At the same location, it includes the Blue Box Century Theatre. This is 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. Also included is the medieval Manor House Museum at Donington le Heath.

#### **The Museum Art Collection**

Some of the notable paintings of most value are works by the nineteenth century local artist John Ferneley Snr.

#### **The Artworks 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.

#### 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, jewellery, 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).

#### **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**

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:

2020/21		2021/22
£m		£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:

2020/21 £m		2021/22 £m
1.4	Opening Balance as at 1st April	1.7
0.0	Additions – Purchases	0.0
0.0	Additions – Construction	0.0
0.0	Additions - Subsequent Expenditure	0.0
0.0	Disposals	0.0
0.3	Gain/Loss From Fair Value Adjustments	0.1
	Transfers:	
0.0	(To)/From Inventory	0.0
0.0	(To)/From Property, Plant & Equipment	0.0
1.7	Closing Balance as at 31st March	1.8

As of 31<sup>st</sup> March 2022 no investment properties are classified as assets held for sale.





#### **Fair Value Hierarchy**

The Authority's investment property portfolio has been assessed as Level 2 for valuation purposes. Note 47 provides details of fair value and the input level hierarchy as specified by IFRS 13.

	£m	2021/22 £m	£m
Investment Properties	<b>Level 1</b> Quoted Prices in Active Markets for Identical Assets	<b>Level 2</b> Other Significant Observable Inputs	<b>Level 3</b> Significant Unobservable Inputs
Commercial	0.0	0.6	0.0
Community	0.0	0.8	0.0
Residential	0.0	0.4	0.0
Total	0.0	1.8	0.0

	£m	2020/21 £m £m £m			
Investment Properties	<b>Level 1</b> Quoted Prices in Active Markets for Identical Assets	<b>Level 2</b> Other Significant Observable Inputs	<b>Level 3</b> Significant Unobservable Inputs		
Commercial	0.0	0.6	0.0		
Community	0.0	0.7	0.0		
Residential	0.0	0.4	0.0		
Total	0.0	1.7	0.0		

## **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 a firm of external valuers, Bruton Knowles LLP who were commissioned by the Estates section of the Authority's Corporate Resources Department in accordance with the prescribed standards.



# **Note 20: Financial Instruments**

31 March 2021 Long Term £m	31 March 2021 Current £m		31 March 2022 Long Term £m	31 March 2022 Current £m
			-	
		Financial Assets at Amortised Cost:		
10.0	210.2	Investments	10.0	290.5
28.7	121.8	Debtors	27.1	105.0
0.0	98.4	Cash and Cash Equivalents	0.0	112.8
0.0	0.0	Available for Sale Financial Assets	0.0	0.0
40.9	0.0	Financial Assets at Fair Value through Profit and Loss: Investments	51.7	0.0
79.6	430.4	Total Financial Assets	88.8	508.3
265.3 51.5 1.2	3.7 177.8 0.0	Financial Liabilities at Amortised Cost: Borrowing Creditors Finance Lease Liabilities	264.8 85.0 1.2	3.7 177.6 0.0
318.0	181.5	Total Financial Liabilities	351.0	181.3

The following categories of financial instruments are carried in the Balance Sheet:

As at 31<sup>st</sup> Match 2022, the authority has a long term investment of £10.0m with a banking institution, £28.0m in pooled property investments and £23.7m in private debt investments. Pooled property is valued per the year end bid price or net asset value (NAV) statement. Private debt is valued per the year end NAV statement.

The value of debtors and creditors reported in the Notes to the Statement of Accounts are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the balance sheet and Notes include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

The following gains and losses are recognised in the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement:

2020/21 £m		2021/22 £m
	Net Gains/(Losses) on:	
(0.2)	Financial Assets measured at Fair Value through Profit and Loss	2.8
(0.2)	Total Net Gains/ (Losses)	2.8
4.8	Total Interest Income	5.2
15.3	Total Interest Expense	15.3



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

Financial liabilities and financial assets represented by Borrowings, Investments and Cash 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.

31 March 2	2021*		31 March	2022
Carrying	At Fair		Carrying	At Fair
Amount	Value		Amount	Value
£m	£m		£m	£m
469.0	469.0	Financial Assets	545.4	544.8
499.6	715.7	Financial Liabilities	532.2	707.5

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

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

## **Fair Value Hierarchy**

The Authority's financial assets and liabilities have been assessed as Level 2 for valuation purposes. Note 47 (sub section 25) provides an explanation of fair value and the input level hierarchy.

	£m	2021/22 £m	£m
Fair Value	<b>Level 1</b> Quoted Prices in Active Markets for Identical Assets	<b>Level 2</b> Other Significant Observable Inputs	<b>Level 3</b> Significant Unobservable Inputs
Financial Assets	0.0	51.7	0.0
Financial Liabilities	0.0	0.0	0.0
Total	0.0	51.7	0.0
		2020/21*	

		2020/21		
	£m	£m £m		
Fair Value	<b>Level 1</b> Quoted Prices in Active Markets for Identical Assets	<b>Level 2</b> Other Significant Observable Inputs	<b>Level 3</b> Significant Unobservable Inputs	
Financial Assets	0.0	40.9	0.0	
Financial Liabilities	0.0	0.0	0.0	
Total	0.0	40.9	0.0	

The fair value for financial liabilities and financial assets that are not measured at fair value included in Level 2 in the table above have been arrived at using a discounted cash flow analysis, with the most significant inputs being the discount rate.



# **Note 21: Inventories**

	Leicestershire Highways (stores) £m	Leicestershire Highways (fuel) £m	School Food (consumables) £m	Sub-total £m	Other (less than £0.1m) £m	Total £m
Opening Balance						
31 March 2021	0.7	0.1	0.2	1.0	0.3	1.3
Purchases	1.9	0.6	3.2	5.7	1.0	6.7
Recognised as an expense during the year	(1.5)	(0.6)	(3.1)	(5.2)	(1.0)	(6.2)
Closing Balance 31 March 2022	1.1	0.1	0.3	1.5	0.3	1.8

# Note 22: Long Term Debtors

31 March 2021 £m		31 March 2022 £m
	Long Term Debtors (amounts falling due after one year)	
25.8	Outstanding debt relating to transferred services (e.g. Leicester City, Police, ESPO)	24.4
2.4	Residential Care Charges (secured against properties)	2.2
0.5	Other Long Term Debtors	0.5
28.7	Total Long Term Debtors	27.1

# Note 23: Short Term Debtors

116.6	23.1	139.7	Total Short Term Debtors	105.1	21.0	126.1
	Advance				Advance	
Debtors	Payments in	Total		Debtors	Payments in	Total
	£m				£m	
	31 March 2021				31 March 2022	

Debtors are shown net of a credit loss allowance of £6.5m as at 31 March 2022 (£4.7m 31 March 2021), reported in Note 44 to the accounts.



31 March 2021 £m		31 March 2022 £m
	Net Cash Balance at Year End:	
10.0	School & Imprest Accounts	0.0
0.6	Main Bank Accounts	0.9
10.6	Subtotal Cash In Hand / (Overdrawn)	0.9
14.9	Service User Funds Bank Account* Short-Term Deposits with Banks and Building	15.1
72.9	Societies	96.8
98.4	Total Cash and Cash Equivalents	112.8

# Note 24: Cash & Cash Equivalents

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

# **Note 25: Long Term Creditors**

31 March 2021 £m		31 March 2022 £m
	Amounts Received in Advance: (more than one year)	
7.2	Section 106 Housing Developer Revenue Contributions	7.0
7.2	Total Long Term Creditors	7.0

# **Note 26: Short Term Creditors**

31 March 2021 £m			31 March 2022 £m			
Creditors	Receipts in Advance	Total		Creditors	Receipts in Advance	Total
154.0	41.9	195.9	Total Short Term Creditors	168.2	23.6	191.8



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#### Notes to the Accounts

## **Note 27: Provisions**

	31 March 2021	Additional Provisions	Provisions Used	31 March 2022
	£m	£m	£m	£m
Short Term				
Non Domestic Rates	2.8	0.0	(0.8)	2.0
Insurance	0.1	0.3	0.0	0.4
County Farms Restoration	0.0	2.4	0.0	2.4
Other	0.5	0.8	(0.3)	1.0
Total Short Term Provisions	3.4	3.5	(1.1)	5.8
Long Term				
Insurance	3.3	0.0	(1.5)	1.8
Total Long Term Provisions	3.3	0.0	(1.5)	1.8
Total Provisions	6.7	3.5	(2.6)	7.6

## **Details of Provisions Held:**

#### **Non Domestic Rate Appeals**

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 2021 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.

#### **County Farms Restoration**

Provision for the restoration costs of a County Council tenanted farm, Firs Farm in Husbands Bosworth, due to environmental damage relating to illegal waste disposal. A remediation strategy for the farm has been agreed with the Environment Agency for the removal and proper disposal of the waste on the farm and reinstatement of the farmland planned to take place in 2023/24.



# Note 28: Cash Flow Statement – Operating Activities

2020/21 £m		2021/22 £m
	The cash flows for operating activities include the following items:	
(5.4) 15.6	Interest Received Interest Paid	(4.9) 15.7
	The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:	
	Description	
(26.2) (17.9)	Depreciation Impairment and Downward Revaluations	(27.0) (24.0)
(73.0)	(Increase) / decrease in Creditors	(24.4)
21.5	Increase / (decrease) in Debtors	(8.9)
(0.3)	Increase / (decrease) in Inventories	0.5
(23.6)	Movement in Pension Liability	(53.3)
(1.9)	Carrying amount of Non-Current Assets Sold or De-recognised	(10.1)
1.2	Other non-cash items charged to the net surplus or deficit on the	(0.8)
(110.0)	Total adjustments to the net surplus or deficit on the provision of	(137.2)
	services for non-cash movements	
	The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:	
1.2	Proceeds from the sale of property, plant and equipment	
	investment property and intangible assets	7.2
(10.8)	Servicing of Finance	(10.6)
59.9	Capital Grants and Contributions	58.7
	Total adjustments for items included in the net surplus or deficit	
50.3	on the provision of services that are investing and financing activities	55.3

# Note 29: Cash Flow Statement - Investing Activities

2020/21 £m		2021/22 £m
96.2	Purchase of property, plant and equipment, investment property	61.7
20.8	Purchase of short-term and long-term investments	90.8
	Proceeds from the sale of property, plant and equipment,	
(1.2)	investment property and intangible assets	(7.2)
(59.9)	Capital Grants and Contributions	(58.7)
0.0	Other receipts from investing activities	0.0
55.9	Net Cash Flows from Investing Activities	86.6



2020/21 £m		2021/22 £m
0.0 0.5	Cash receipts of short-term and long-term borrowing Repayments of short-term and long-term borrowing	0.0 0.5
0.5	Net Cash Flows from Financing Activities	0.5

## Note 30: Cash Flow Statement - Financing Activities

# **Note 31: 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 (2020/21 £1.2m) to the pool. The memorandum account shows total expenditure of £6.6m (2020/21 £5.9m) and gross income of £6.6m (2020/21 £5.9m). Funding commenced in 2005/06 and the partners have agreed to commission this service until March 2022.

2020/21 £m		2021/22 £m
	Funding Provided to the Pooled Budget	
(1.2)	Leicestershire County Council Clinical Commissioning Groups / Leicester City Council	(1.2)
(4.7)	/ Rutland County Council	(5.4)
(5.9)	Total	(6.6)
	Expenditure Met from the Pooled Budget	
1.2	Leicestershire County Council Clinical Commissioning Groups / Leicester City Council	1.2
4.7	/ Rutland County Council	5.4
5.9	Total	6.6
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 Leicestershire Clinical Commissioning Group and NHS East Leicestershire and Rutland Clinical Commissioning Group. Leicestershire County Council acts as host to the arrangement. The Authority contributed £9.4m (2020/21 £8.4m). The memorandum account shows total expenditure of £16.9m (2020/21 £15.9m) and gross income from the partners of £16.9m (2020/21 £15.9m). 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.

2020/21 £m		2021/22 £m
	Funding Provided to the Pooled Budget	
(8.4)	Leicestershire County Council	(9.4)
(7.5)	Clinical Commissioning Groups	(7.5)
(15.9)	Total	(16.9)
	Expenditure Met from the Pooled Budget	
8.4	Leicestershire County Council	9.4
7.5	Clinical Commissioning Groups	7.5
15.9	Total	16.9
0.0	Net Position on the Pooled Budget	0.0
0.0	Surplus to the Authority	0.0

### c) The Better Care Fund.

On the 1st April 2018, 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 £76.7m (2020/21 £70.3m) and gross income of £76.7m (2020/21 £70.3m).

2020/21		2021/22
£m		£m
	Income	
(48.7)	Clinical Commissioning Groups	(55.1)
(17.2)	Improved Better Care Fund Grant	(17.2)
(4.4)	Disabled Facilities Grant	(4.4)
(70.3)	Total	(76.7)
	Expenditure	
49.2	Leicestershire County Council Managed Schemes	54.7
16.7	Clinical Commissioning Groups Managed Schemes	17.6
4.4	Disabled Facilities Grant	4.4
70.3	Total	76.7
0.0	Net Position on the Pooled Budget	0.0



# Note 32: 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 who have the power to direct or control the major functions of the Authority.

					Total
					Remuneration
			-		- including
					Employers
					Pension
-					Contribution
£000	£000	£000	£000	£000	£000
			l	r	
212	0	0	212	0	212
212	0	0	212		
141	0	0	141	39	180
141	0	0	141	20	161
141	0	0	141	39	180
141	0	0	141	39	180
141	0	0	141	39	180
132	0	0	132	36	168
1,049	0	0	1,049	212	1,261
	1			L	-
209	0	0	209	0	209
200			203	ŭ	203
139	0	0	139	37	176
139	0	0	139	20	159
135	0	0	135	35	170
135	0	0	135	35	170
135	0	0	135	35	170
126	0	0	126	33	159
120	0	0	120	55	100
	141 141 141 141 132 1,049 209 139 139 139 135 135 135	f000       f000         212       0         141       0         141       0         141       0         141       0         141       0         141       0         141       0         141       0         141       0         141       0         142       0         143       0         144       0         145       0         139       0         135       0         135       0         135       0	Salary $\underline{for loss of}office\underline{f000}Benefitsin kind\underline{f000}2120014100141001410014100141001410014100132001330013900135001350013500$	Salary £000         for loss of office £000         Benefits in kind £000         Pension Contribution £000           212         0         0         212           141         0         0         141           141         0         0         141           141         0         0         141           141         0         0         141           141         0         0         141           141         0         0         141           141         0         0         141           141         0         0         141           141         0         0         141           141         0         0         141           141         0         0         141           132         0         0         132           132         0         0         139           139         0         0         139           135         0         0         135           135         0         0         135	Salary for loss of officeBenefits in kindRemuneration Excl Employers Pension Contribution (N1) f000Employers Pension Contribution (N1)21200212021100212014100141391410014139141001413914100141391410014139141001413914100141391410014139132001323613400133371390013937139001353513500135351350013535

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

N1 – Revised employer's pension contribution rates in 2021/22.



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.

202	0/21		2021/	22
Including Severance	Excluding Severance		Including Severance	Excluding Severance
No. of	No.of		No. of	No. of
Employees	Employees	Remuneration Band	Employees	Employees
150	150	£50,000-£54,999	183	183
78	76	£55,000-£59,999	76	76
60	60	£60,000-£64,999	72	72
32	32	£65,000-£69,999	32	32
24	24	£70,000-£74,999	33	33
9	9	£75,000-£79,999	6	6
8	8	£80,000-£84,999	7	7
3	3	£85,000-£89,999	7	6
1	1	£90,000-£94,999	1	2
9	9	£95,000-£99,999	3	3
1	1	£100,000-£104,999	9	8
0	0	£105,000-£109,999	1	1
2	1	£110,000-£114,999	2	3
2	2	£115,000-£119,999	1	0
1	1	£120,000-£124,999	2	2
0	0	£155,000-159,999	1	0
380	377	Total	436	434

Note: the numbers above include Leicestershire maintained schools.

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				Total number of Exit Packages by Cost Band		Total cost of Exit Packages in each Cost Band*	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
							£m	£m
£0 - £20,000	6	10	20	35	26	45	0.2	0.2
£20,001 - £40,000	1	1	8	3	9	4	0.2	0.1
£40,001 - £60,000	1	0	1	2	2	2	0.1	0.1
£60,001 - £80,000	0	0	0	1	0	1	0.0	0.1
£80,001 - £100,000	0	1	1	0	1	1	0.1	0.1
£150,001 - £200,000	0	0	1	0	1	0	0.2	0.0
Total	8	12	31	41	39	53	0.8	0.6

i) The above table includes accrued liabilities. See note 42 for further details.

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

# Note 33: Members' Allowances

Amounts were paid to members of the Authority as follows:

2020/21 £m		2021/22 £m	
0.7	Basic Allowance	0.7	
0.3	Special Responsibility Allowances	0.4	
1.0	Total	1.1	



# Note 34: External Audit Costs

The Authority has incurred the following costs in relation to the audit of the statement of accounts:

2020/21 £		2021/22 £
	Fees payable to external auditor:	
107,602	Annual audit	139,777
5,500	Other services provided during the year	6,917
113,102	Total	146,694

# **Note 35: Dedicated Schools Grant**

The council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency (ESFA), the Dedicated Schools Grant (DSG). The DSG is ringfenced and can only be applied to meet expenditure properly included in the schools budget, as defined in the School Finance and Early Years (England) Regulations 2021. 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 2021/22 are as follows:

	2020/21		Schools Budget Funded by DSG		2021/22	
£m	£m	£m		£m	£m	£m
Central	Individual	Total		Central	Individual	Total
Ехр	Schools			Ехр	Schools	
	Budget		Final DCC for 2024/22 hafare and high		Budget	
		(531.9)	Final DSG for 2021/22 before academy and high needs recoupment			(577.9)
		347.1	Academy and high needs figure recouped for 2021/22			380.0
		(184.8)	Total DSG after academy and high needs recoupment for 2021/22			(197.9)
		4.1	Plus: brought forward from 2020/21			0.0
		0.0	Less: Carry forward to 2022/23 agreed in			0.0
			advance			
(96.6)	(84.2)	(180.7)	Agreed initial budgeted distribution in 2021/22	(111.3)	(86.6)	(197.9)
0.2	0.0	0.2	In year adjustments	0.4	0.0	0.4
(96.8)	(84.2)	(180.9)	Final budgeted distribution for 2021/22	(110.9)	(86.6)	(197.5)
114.3	0.0	114.3	Less: Actual central expenditure	126.4	0.0	126.4
0.0	77.8	77.8	Less: Actual ISB deployed to schools	0.0	84.3	84.3
0.0	0.0	0.0	Plus: Local Authority contribution for 2021/22	0.0	0.0	0.0
		11.1	In year carry forward to 2022/23	15.5	(2.3)	13.2
		0.0	Plus: Carry-forward to 2022/23 agreed in advance			0.0
		0.0	Carry-forward to 2022/23			0.0
		0.0	DSG unusable reserve at the end of 2020/21			11.1
		0.0	Addition to DSG unusable reserve at the end of 2021/22			13.2
		11.1	Total of DSG unusable reserve at the end of 2021/22			24.3
		11.1	Net DSG position at the end of 2021/22			24.3



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# Note 36: Grant Income

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

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

fm         fm           0.0         Revenue:         Revenue:         0.0           19.4         Covid-19 Grant         15.1           3.8         New Homes Bonus Scheme Grant         2.6           13.0         Social Care General Grant         14.3           3.8         Tax Income Guarantee Grant         14.3           3.0         Jas.5         Copital:           Department for Education:         Basic Need         16.7           3.0         Maintenance         4.1           0.0         High Needs Provision         3.6           7.8         Local Transport:         2.0           12.6         Pepartment for Transport:         2.0           12.6         Pepartment for Transport:         2.0           12.6         Department for Transport:         2.0           12.6         Department for Business, Energy and Industrial Strategy         2.7           2.4         Maintenance Incentive Element         2.0           12.6         Department for Business, Energy and Industrial Strategy         3.6           7.1         Section 106 Housing Developer Contributions         6.6           20.7	2020/21	2021/22				
0.0Revenue Support Grant (RSG)0.019.4Covid-19 Grant15.13.8New Homes Bonus Scheme Grant2.613.0Social Care General Grant14.32.338.5Tax Income Guarantee Grant0.038.5Gapital:32.00.0Basic Need16.73.0Maintenance4.10.0High Needs Provision3.67.8Local Transport Plan - Maintenance7.92.7Local Transport Plan - Integrated Transport Schemes2.72.4Pothole Grant7.92.5Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.67.1Section 106 Housing Developer Contributions6.620.7						
0.0Revenue Support Grant (RSG)0.019.4Covid-19 Grant15.13.8New Homes Bonus Scheme Grant2.613.0Social Care General Grant14.32.338.5Tax Income Guarantee Grant0.038.5Gopital:32.00.0Basic Need16.73.0Maintenance4.10.0High Needs Provision3.67.8Local Transport Plan - Maintenance7.92.7Local Transport Plan - Maintenance2.02.4Pothole Grant2.03.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.67.1Section 106 Housing Developer Contributions6.620.759.9Other Capital Contributions (below £1m at 31 March 2022)3.698.4Total (Note 14 non ring-fenced government grants and capital90.7						
19.4 3.8 3.6Covid-19 Grant Grant15.1 2.6 14.3 0.03.0 0 38.5New Homes Bonus Scheme Grant Social Care General Grant Tax Income Guarantee Grant16.7 14.3 0.03.0 0 0 0 0Basic Need Maintenance High Needs Provision16.7 16.7 16.77.8 2.7 2.7 1. Local Transport Plan - Maintenance 12.6 Pothole Grant7.9 2.7 2.03.6 12.6Department for Tansport: Local Transport Plan - Integrated Transport Schemes 2.7 12.67.9 2.7 2.7 2.7 2.7 2.7 2.7 2.7 2.7 2.67.9 2.7 3.6 3.615.1 2.0 2.7 <td></td> <td>Revenue:</td> <td></td> <td></td>		Revenue:				
3.8 13.0 2.3New Homes Bonus Scheme Grant Social Care General Grant 	0.0	Revenue Support Grant (RSG)	0.0			
13.0 2.3Social Care General Grant Tax Income Guarantee Grant14.3 0.0 32.038.5Capital: Department for Education: Basic Need16.7 16.70.0 3.0Basic Need16.70.0 3.0Department for Transport: Local Transport Plan - Maintenance1.4 1.1 3.67.8 2.7 2.4Department for Transport: Local Transport Plan - Integrated Transport Schemes7.9 2.7 2.012.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.67.1 59.9Section 106 Housing Developer Contributions6.620.7 59.9Other Capital Contributions (below £1m at 31 March 2022)3.698.4Total (Note 14 non ring-fenced government grants and capital90.7	19.4	Covid-19 Grant	15.1			
2.3Tax Income Guarantee Grant0.038.538.533.538.5Capital: Department for Education: Basic Need16.70.0Basic Need16.73.0Maintenance4.10.0High Needs Provision3.67.8Department for Transport: Local Transport Plan - Maintenance7.92.7Local Transport Plan - Integrated Transport Schemes2.72.4Maintenance Incentive Element2.07.9Pothole Grant7.93.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.67.1Section 106 Housing Developer Contributions6.620.70ther Capital Contributions (below £1m at 31 March 2022)3.698.4Total (Note 14 non ring-fenced government grants and capital90.7	3.8	New Homes Bonus Scheme Grant	2.6			
38.5Capital: Department for Education: Basic Need16.70.0Basic Need16.73.0Maintenance4.10.0High Needs Provision3.60.0Department for Transport: Local Transport Plan - Maintenance7.92.7Local Transport Plan - Integrated Transport Schemes2.72.4Maintenance Incentive Element2.012.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.63.6Department for Ide Housing Developer Contributions6.620.7Other Capital Contributions (below £1m at 31 March 2022)3.698.4Total (Note 14 non ring-fenced government grants and capital90.7	13.0	Social Care General Grant	14.3			
Capital: Department for Education: Basic Need16.73.0Basic Need16.73.0Maintenance4.10.0High Needs Provision3.60.0Department for Transport: Local Transport Plan - Maintenance7.92.7Local Transport Plan - Integrated Transport Schemes2.72.4Maintenance Incentive Element2.012.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.63.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.62.0.7Section 106 Housing Developer Contributions6.62.0.7Other Capital Contributions (below £1m at 31 March 2022)3.698.4Total (Note 14 non ring-fenced government grants and capital90.7	2.3	Tax Income Guarantee Grant	0.0			
Department for Education:16.70.0Basic Need16.73.0Maintenance4.10.0High Needs Provision3.60.0Department for Transport:7.91.0Local Transport Plan - Maintenance7.92.7Local Transport Plan - Integrated Transport Schemes2.72.4Maintenance Incentive Element2.012.6Pothole Grant7.93.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.620.7Other Capital Contributions (below £1m at 31 March 2022)3.659.959.958.7	38.5			32.0		
Department for Education:16.70.0Basic Need16.73.0Maintenance4.10.0High Needs Provision3.60.0Department for Transport:7.91.0Local Transport Plan - Maintenance7.92.7Local Transport Plan - Integrated Transport Schemes2.72.4Maintenance Incentive Element2.012.6Pothole Grant7.93.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.620.7Other Capital Contributions (below £1m at 31 March 2022)3.659.959.958.7						
0.0Basic Need16.73.0Maintenance4.10.0High Needs Provision3.60.0High Needs Provision3.60.0Department for Transport: Local Transport Plan - Maintenance7.92.7Local Transport Plan - Integrated Transport Schemes2.72.4Maintenance Incentive Element2.012.6Pothole Grant7.93.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.63.1Section 106 Housing Developer Contributions6.620.70ther Capital Contributions (below £1m at 31 March 2022)3.659.959.958.7		Capital:				
3.0Maintenance High Needs Provision4.1 3.60.0Department for Transport: Local Transport Plan - Maintenance Local Transport Plan - Integrated Transport Schemes7.9 2.7 2.42.4Maintenance Incentive Element Pothole Grant2.0 7.93.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.67.1Section 106 Housing Developer Contributions6.620.7		Department for Education:				
0.0High Needs Provision3.67.8Department for Transport: Local Transport Plan - Maintenance Local Transport Plan - Integrated Transport Schemes7.92.7Local Transport Plan - Integrated Transport Schemes2.72.4Maintenance Incentive Element Pothole Grant2.03.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.67.1Section 106 Housing Developer Contributions6.620.759.9Other Capital Contributions (below £1m at 31 March 2022)3.698.4Total (Note 14 non ring-fenced government grants and capital90.7	0.0	Basic Need	16.7			
7.8Department for Transport: Local Transport Plan - Maintenance7.92.7Local Transport Plan - Integrated Transport Schemes2.72.4Maintenance Incentive Element2.012.6Pothole Grant7.93.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.67.1Section 106 Housing Developer Contributions6.620.7Other Capital Contributions (below £1m at 31 March 2022)3.698.4Total (Note 14 non ring-fenced government grants and capital90.7	3.0	Maintenance	4.1			
7.8Local Transport Plan - Maintenance7.92.7Local Transport Plan - Integrated Transport Schemes2.72.4Maintenance Incentive Element2.012.6Pothole Grant7.93.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.67.1Section 106 Housing Developer Contributions6.620.70ther Capital Contributions (below £1m at 31 March 2022)3.658.798.4Total (Note 14 non ring-fenced government grants and capital90.7	0.0	High Needs Provision	3.6			
7.8Local Transport Plan - Maintenance7.92.7Local Transport Plan - Integrated Transport Schemes2.72.4Maintenance Incentive Element2.012.6Pothole Grant7.93.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.67.1Section 106 Housing Developer Contributions6.620.70ther Capital Contributions (below £1m at 31 March 2022)3.659.959.958.7						
2.7Local Transport Plan - Integrated Transport Schemes2.72.4Maintenance Incentive Element2.012.6Pothole Grant7.93.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.67.1Section 106 Housing Developer Contributions6.620.7Other Capital Contributions (below £1m at 31 March 2022)3.659.9Total (Note 14 non ring-fenced government grants and capital90.7						
2.4Maintenance Incentive Element Pothole Grant2.012.6Pothole Grant7.93.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.67.1Section 106 Housing Developer Contributions6.620.70ther Capital Contributions (below £1m at 31 March 2022)3.698.4Total (Note 14 non ring-fenced government grants and capital90.7	7.8	Local Transport Plan - Maintenance	7.9			
12.6Pothole Grant7.912.6Pothole Grant7.93.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.67.1Section 106 Housing Developer Contributions6.620.7Other Capital Contributions (below £1m at 31 March 2022)3.659.959.958.7	2.7	Local Transport Plan – Integrated Transport Schemes	2.7			
3.6Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation Scheme3.67.1Section 106 Housing Developer Contributions6.620.70ther Capital Contributions (below £1m at 31 March 2022)3.698.4Total (Note 14 non ring-fenced government grants and capital90.7	2.4	Maintenance Incentive Element	2.0			
3.6       Public Sector Decarbonisation Scheme       3.6         7.1       Section 106 Housing Developer Contributions       6.6         20.7       Other Capital Contributions (below £1m at 31 March 2022)       3.6         59.9       Total (Note 14 non ring-fenced government grants and capital       90.7	12.6	Pothole Grant	7.9			
3.6       Public Sector Decarbonisation Scheme       3.6         7.1       Section 106 Housing Developer Contributions       6.6         20.7       Other Capital Contributions (below £1m at 31 March 2022)       3.6         59.9       Total (Note 14 non ring-fenced government grants and capital       90.7						
7.1       Section 106 Housing Developer Contributions       6.6         20.7						
20.7       Other Capital Contributions (below £1m at 31 March 2022)       3.6         59.9       59.9       58.7         98.4       Total (Note 14 non ring-fenced government grants and capital       90.7	3.6	Public Sector Decarbonisation Scheme	3.6			
20.7       Other Capital Contributions (below £1m at 31 March 2022)       3.6         59.9       59.9       58.7         98.4       Total (Note 14 non ring-fenced government grants and capital       90.7	7.4		6.6			
59.9       58.7         98.4       Total (Note 14 non ring-fenced government grants and capital       90.7	/.1	Section 106 Housing Developer Contributions	6.6			
59.9       58.7         98.4       Total (Note 14 non ring-fenced government grants and capital       90.7	20.7	Other Capital Contributions (below £1m at 31 March 2022)	3.6			
98.4       Total (Note 14 non ring-fenced government grants and capital       90.7				58.7		
	55.5			56.7		
	98.4	Total (Note 14 non ring-fenced government grants and capital		90.7		
<u> </u>		grants and contributions)				



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Notes to the Accounts

(ii) Credited to gross income wit	thin the Continuing Services section of the CIES:
(ii) di cuitcu to gi oss income tri	

2020/21		2021/2	22
£m		£m	
	Children and Family Services – Education:		
184.6	Dedicated Schools Grant	197.5	
5.4	Pupil Premium Grant	5.2	
1.0	Pupil Premium – Covid Grant	1.3	
2.7	Universal Infant Free School Meals	2.6	
1.5	PE & Sports Grant	1.6	
0.8	Adoption Support Fund	1.0	
0.5	Children's Innovation Partnership	1.0	
0.8	Troubled Families Programme	1.1	
1.8	Asylum Seekers	2.1	
199.1		-	213.4
	Adults and Communities – Dept of Health:		
17.2	Improved Better Care Fund	17.2	
0.0	Covid Grant	15.7	
4.7	Skills Funding Agency	4.7	
0.0	Household Support Fund	3.6	
1.6	Winter Grant	2.1	
1.2	Independent living Fund	1.2	
24.7		-	44.5
	Public Health		
25.2	Public Health Grant	25.5	
5.1	Covid – Contain Funding	12.4	
0.5	Covid – Public Health	1.8	
0.0	Community Testing	1.7	
0.7	Domestic Abuse Services	1.3	
0.4	Test & Trace Grant	1.1	
0.0	Green Homes Grant	1.0	44.8
51.5	Environment & Transport		44.0
0.2	Home to School Transport Grant		1.2
1.0	Bus Service Operators Grant		1.2
	Corporate Resources		
1.5	Music Grant		1.5
42.0	Other income (below £1m at 31 March 2022) and REFCUS		17.4
298.9	Total		324.0

b) The Authority has received 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:

31 March 2021 £m	Short-Term Capital Grants Receipts in Advance:	31 March 2022 £m
2.8	Dept. for Transport: National Productivity Incentive Fund	2.4
3.6	Dept. for Business, Energy & Industrial: Decarbonisation	0.0
2.4	Dept. for Transport: Pothole Grant	4.0
2.3	Section 106 Housing Developer Contributions	1.9
1.4	Other Grants and Contributions	0.2
12.5	Total	8.5
31 March 2021 £m	Long-Term Capital Grants Receipts in Advance:	31 March 2022 £m
44.3	Section 106 Housing Developer Contributions	78.0



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Notes to the Accounts				
44.3 Total	78.0			



# **Note 37: Related Parties**

Details of the total Government grants received are shown in Notes 15 and 36. The employers' contribution paid to the Pension Fund is shown in Note 16. Interests in consortia and other organisations are disclosed in Note 38. Details of the related party transactions with the Eastern Shires Purchasing Organisation (ESPO) are included within Note 38. 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 36. Grant receipts outstanding at 31 March are also shown in Note 36.

### **Members**

Members of Leicestershire County Council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2021/22 is shown in Note 33. During 2021/22, works and services to the total value of less than £0.1m (2020/21 £0.1m) were commissioned from companies, in which one 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 less than £0.3m (2010/21, £0.1m), in which 8 members (2020/21, 6 members) have an interest. In addition, payments totalling less than £0.2m have been made during 2021/22 (2020/21, less than £0.1m) to organisations, in which 4 members had a position on the governing body (2020/21, 3 members). In all instances, the payments were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the payments. Details of all these transactions are recorded in the *Register of Members' Interest*, which is available for public inspection at <u>www.leicestershire.gov.uk</u>

### Officers

During 2021/22, no works and services were procured (2020/21 none) in which senior officer's or their family member had an interest.

### **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 31.

# Note 38: 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 (2020/21, less than £0.1m) and an outstanding debtor balance of £0.4m as at 31 March 2022 (2020/21 £0.2m). 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 2022 is £4.3m (2020/21 £4.8m).

The Authority in effect owns approximately one sixth of ESPO assets and liabilities, which in 2021/22 were net assets of £15.6m (LCC £2.6m). These are not included on the Authority's Balance Sheet. A copy of ESPO's statement of accounts is available from ESPO, Barnsdale Way, Grove Park, Enderby, Leicester. LE19 1ES.



# b) Leicester, Leicestershire and Rutland Combined Fire Authority

The Authority is a constituent member of Leicester, Leicestershire and Rutland Combined Fire Authority. The Authority had an outstanding debtor balance of £0.3m as at 31 March 2022 (2020/21 Less than £0.2m). A copy of the Fire Authority statement of accounts is available from: Leicester, Leicestershire and Rutland Combined Fire Authority at 12 Geoff Monk Way, Birstall, Leicester, LE4 3BU.

### 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 44.7%. 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	Amounts		Total	Amounts
2020/21	Included in LCC		EMSS	Included in
	CIES		2021/22	LCC CIES
£m	2020/21			2021/22
	£m		£m	£m
		Income:		
(1.4)	(1.4)	Direct external income - LCC	(1.2)	(1.2)
(0.5)	(0.5)	Direct external income – NCC	(0.5)	(0.0)
(0.0)	(2.5)	NCC share of net LCC direct costs	(0.0)	(2.7)
(1.9)	(4.4)	Total Income	(1.7)	(3.9)
		Expenditure:		
6.0	6.0	Direct costs incurred by LCC	6.0	6.0
0.0	0.0	Direct costs incurred by NCC	0.4	0.0
6.0	6.0	Total Expenditure	6.4	6.0
4.1	1.6	Net Expenditure	4.7	2.1

### d) Active Together

Active Together, formerly known as LeicesterShire & Rutland Sport, is an active partnership working collaboratively with a range of partners across Leicestershire, Leicester and Rutland, to help communities realise the benefits of a more physically active life. Active Together is funded from different sources including Leicestershire County Council (LCC) and Sport England. LCC is the host Authority and Active Together accounts form a part of the overall Public Health budget. A summary of the income and expenditure specific to Active Together follows:

2020/21	Income and Expenditure Category	Sport England	Local Authority	Other Public Sector Income	Non- public Income	2021/22
£m		£m	£m	£m	£m	£m
	Income:					
(2.1)	Revenue Grants	(1.1)	(1.6)	(0.0)	(0.0)	(2.7)
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)
(0.3)	Other Income	(0.0)	(0.0)	(0.4)	(0.0)	(0.4)
0.0	Enterprise & Innovation	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
(2.4)	Total Income	(1.1)	(1.6)	(0.4)	(0.0)	(3.1)



Income and Expenditure Category	Sport England	Local Authority	Other Public Sector	Non- public Income	2021/22
	£m	£m	£m	£m	£m
Expenditure:					
Support costs	0.5	0.7	0.1	0.0	1.3
Overheads	0.0	0.1	0.0	0.0	0.1
Get Active	0.2	0.7	0.1	0.0	1.0
Stay Active	0.0	0.1	0.0	0.0	0.1
Active Economy	0.0	0.0	0.0	0.0	0.0
Well Led	0.0	0.0	0.0	0.0	0.0
Workforce	0.0	0.1	0.0	0.0	0.1
MarComms	0.0	0.2	0.0	0.0	0.2
Active Places	0.2	0.0	0.0	0.0	0.2
Enterprise & Innovation	0.0	0.0	0.0	0.0	0.0
Total Expenditure	0.9	1.9	0.2	0.0	3.0
Net	(0.2)	0.3	(0.2)	0.0	(0.1)
Earmarked Deferred project					
Expenditure/(Net Deficit Required					(0.1)
from Reserves)					
	Category Expenditure: Support costs Overheads Get Active Stay Active Active Economy Well Led Workforce MarComms Active Places Enterprise & Innovation Total Expenditure Net Earmarked Deferred project Expenditure/(Net Deficit Required	CategoryEnglandExpenditure:fmSupport costs0.5Overheads0.0Get Active0.2Stay Active0.0Active Economy0.0Well Led0.0Workforce0.0MarComms0.0Active Places0.2Enterprise & Innovation0.0Total Expenditure0.9Net(0.2)Earmarked Deferred projectExpenditure/(Net Deficit Required	CategoryEnglandAuthority£m£m£mExpenditure:Support costs0.50.7Overheads0.00.1Get Active0.20.7Stay Active0.00.1Active Economy0.00.0Well Led0.00.0Workforce0.00.1MarComms0.00.2Active Places0.20.0Enterprise & Innovation0.00.0Net0.91.9Earmarked Deferred projectU.2U.3Expenditure/(Net Deficit RequiredU.4U.4	Income and ExpenditureSportLocalPublicCategoryEnglandAuthorityPublic£m£m£m£mExpenditure:0.50.70.1Support costs0.50.70.1Overheads0.00.10.0Get Active0.20.70.1Stay Active0.00.10.0Active Economy0.00.00.0Well Led0.00.00.0Workforce0.00.10.0MarComms0.00.20.0Active Places0.20.00.0Enterprise & Innovation0.91.90.2Net(0.2)0.3(0.2)Earmarked Deferred projectExpenditure/(Net Deficit RequiredV	Income and ExpenditureSportLocalPublicpublicCategoryEnglandAuthorityPublicpublic£m£m£m£mfmExpenditure:0.50.70.10.0Overheads0.00.10.00.0Get Active0.20.70.10.0Stay Active0.00.10.00.0Active Economy0.00.00.00.0Workforce0.00.10.00.0MarComms0.00.10.00.0Active Places0.20.00.00.0Enterprise & Innovation0.00.00.00.0Net0.91.90.20.0Earmarked Deferred projectExpenditure/(Net Deficit RequiredVV

### e) Leicestershire County Council Pension Fund

Leicestershire County Council is the administering authority for the purposes of the Leicestershire County Council Pension Fund (the Fund) under the Local Government Pension Scheme (Administration) Regulations 2013. Recharges from the Authority to the Fund for Pension scheme administration, and oversight and governance, totalled £2.8m (2020/21, £1.7m). The majority of transactions for the Fund are processed by the Authority and are recovered from the Fund. At 31 March 2022 the Authority had a debtor with the fund of £1.7m (31 March 2021, debtor £1.8m).

It has not been possible to apportion, on a reasonable basis, the costs and benefits of key management personnel between the Council and the Fund. However, Members' Allowances and Officers' Remuneration are disclosed in Notes 32 and 33.

administering authorities participating in the LGPS Central Pool. The Company aims to use the combined buying power of its Partner Funds to reduce costs, improve investment returns and widen the range of available asset classes for investment for the benefit of local government pensioners, employees and employers.

issues. The joint committee provides assistance, guidance and recommendations to the individual councils, taking into consideration the conflicting demands and interests of the participants within the pool. The joint committee does not have delegated authority to make binding decisions on behalf of the participating councils.

Further details in respect of the LGPS Central Pool are set out in the Pension Fund Accounts.

### f) 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.



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"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 sum	mary of the position for 202	1/22 is shown b	elow which sho	ws an overall su	rplus on the P	ool of £13.4m.

2021/22	Funding	Rates	Retained	Levy	Safety Net	
	Baseline £m	Baseline £m	Rates			
			£m	£m	£m	
Blaby	2.2	16.8	20.6	1.9	0.0	
Charnwood	4.3	19.7	21.2	0.8	0.0	
Harborough	1.8	15.4	19.9	2.2	0.0	
Hinckley & Bosworth	2.6	12.2	15.2	1.5	0.0	
Melton	1.3	5.7	7.0	0.6	0.0	
NW Leicestershire	2.4	20.6	32.6	6.0	0.0	
Oadby & Wigston	1.5	5.3	6.0	0.4	0.0	
Total	16.1	95.7	122.5	13.4	0.0	
2021/22 Net Gain					13.4	
Net Gain b/f 11						
Less payment due to the LLEP (9						
Total 31 March 2022 1						

2020/21	Funding Baseline £m	Rates Baseline	Retained Rates	Levy	Safety Net	
		£m	£m	£m	£m	
Blaby	2.2	16.8	19.3	1.3	0.0	
Charnwood	4.3	19.7	20.6	0.5	0.0	
Harborough	1.8	15.4	19.2	1.9	0.0	
Hinckley & Bosworth	2.6	12.2	15.1	1.4	0.0	
Melton	1.3	5.7	6.4	0.4	0.0	
NW Leicestershire	2.4	20.6	28.4	3.9	0.0	
Oadby & Wigston	1.5	5.3	5.9	0.3	0.0	
Total	16.1	95.7	114.9	9.7	0.0	
2020/21 Net Gain					9.7	
Net Gain b/f 1						
Less payment due to the LLEP (1						
Total 31 March 2021						

The total of £15.4m held as at 31 March 2022 comprises a £2.0m contingency towards future Pools, with the balance of £13.4m for investment in the wider Leicestershire area and is shown as a creditor in the Authority's accounts. The contingency is shown in the Authority's accounts as a receipt in advance; £1.4m 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.



### g) Concessionary Travel Fares Scheme

The Authority administers the Concessionary Travel Fares Scheme in Leicestershire, which includes areas covered by District Councils. In previous financial years the County Council also administered the scheme for routes within the Leicester City boundary, this arrangement ceased on 1 April 2021. Income and expenditure for the scheme is shown below.

2020/21 £m		2021/22 £m
(9.2)	Income	0.0
14.2	Expenditure	4.4
5.0	Net Cost	4.4

### h) East Midlands Development Corporation

Leicestershire County Council is one of five East Midlands local authority owners of EM DevCo Ltd. The company is working with partners from business, academia, and government to supercharge the local economy and create tens of thousands of new jobs via three landmark developments of national significance. The three developments of regeneration sites are:

- Toton & Chetwynd East Midlands Hub
- Ratcliffe-on-Soar Power Station area
- East Midlands Airport area

The developments cover the size of three Olympic Parks with transformational opportunities around three main growth clusters situated within the borders of Nottinghamshire, Derbyshire and Leicestershire, and close to the core cities of Nottingham, Derby and Leicester. These new plans could create 84,000 jobs and add billions in value to the regional economy. Our Net Zero ambitions for future infrastructure developments will ensure local growth, full and productive employment for all, and inclusive communities are created.

During 2021/22 Leicestershire County Council contributed £0.5m towards the set up and operational costs of the company. The contribution is included in gross expenditure within the Councils CIES. There were no outstanding balance with the company as at the balance sheet date.

The financial statements for the company are not yet available at the time of reporting the Council's draft accounts. A summary position will be included when the Council's audited accounts are published.

# i) East Midlands Freeport

Leicestershire County Council is the accountable body for the proposed East Midlands Freeport. Freeports are a flagship Government programme that will play an important part in the UK's post Covid economic recovery and contribute to realising the levelling up agenda, bringing jobs, investment and prosperity to some of the most deprived communities, with targeted and effective support. The East Midlands Freeport (EMF) is the UK's only inland Freeport and features three main 'tax sites' straddling three East Midlands counties.

The EMF brings together a mix of industries and collaborating partners, combining public and private sector oversight and expertise from key sectors including logistics, technology, transport and education. Work to develop a Business Case began in 2021 and tax site designation was awarded by HM Treasury in March 2022. The Full Business Case was submitted to Government in mid-April 2022 and full designation is expected in the summer of 2022 subject to legislative timetables. A limited liability company will be created during 2022/23 to manage the arrangement from the point of designation.



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Membership of the arrangement comprises of 12 organisations, including: Leicestershire County Council (Lead Authority), Nottinghamshire County Council, Derbyshire County Council, North West Leicestershire District Council, Rushcliffe Borough Council, South Derbyshire District Council, East Midlands Airport, SEGRO, Maritime Transport, Goodman, Etwall Land Ltd and Uniper UK.

As at the balance sheet date, 31 March 2022, the County Council had incurred gross expenditure of £1.2m partly offset by government grant of £0.5m, giving net costs of £0.7m. These are shown with the CIES. The intention is that these will be recovered from the new company, once it is established, from the growth in business rates that the EMF will be able to retain. As no company was in place at 31<sup>st</sup> March 2022 no debtor has been included in the Council's accounts.

# Note 39: 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.

2020/21 £m		2021/22 £m
2		
236.5	Opening Capital Financing Requirement	232.3
2.0	Revised MRP (removal of commutation adjustment)	0.0
	Capital Investment:	
90.8	Property, Plant and Equipment	69.0
90.8 0.2	Intangible Assets	0.0
-	5	
14.6	Revenue Expenditure Funded from Capital under Statute	13.7
	Sources of Finance:	
(1.2)	Capital Receipts	(7.1)
(72.5)	Government grants and other contributions	(69.7)
(31.9)	Direct revenue contributions	(6.0)
(6.2)	Statutory Minimum Revenue Provision	(6.2)
0.0	Additional (Voluntary) Minimum Revenue Provision (N1)	(12.0)
0.0		(12:0)
232.3	Closing Capital Financing Requirement	214.0
	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
(4.2)	Minimum Revenue Provision	(18.2)
(4.2)	Increase/(Decrease) in Capital Financing Requirement	(18.2)

(N1) During 2021/22 the County Council made an additional MRP contribution of £12m, funded from revenue and reserve balances, to reduce the capital financing requirement. This reduces the need to borrow, saving future capital financing costs.

# Note 40: Leases

### a) Amounts Paid to Lessors

Finance lease rentals paid to lessors in the year totalled  $\pm 0.3m$  (2020/21,  $\pm 0.3m$ ). Lease rentals paid to lessors during the year in respect of operating leases totalled  $\pm 1.8m$  (2020/21  $\pm 1.2m$ ).



### b) Amounts Received from Lessees

Lease rentals on Authority owned buildings received from lessees during the year in respect of operating leases totalled £8.4m (2020/21 £4.2m). Expected Lease rentals projected to be received in 2021/22 is £8.5m.

### c) Finance Leased Assets

The Council has four buildings that it uses under finance leases. These assets are carried as Property, Plant and Equipment in the balance sheet, at a value of £0.6m as at 31 March 2022 (31 March 2021 £0.7m).

The Council has a liability to make payments under these leases during 2021/2022 and beyond:

	2020/21			2021/22		
	Finance Lease Principal (NPV)	Finance Cost	Finance Leases Total	Finance Lease Principal (NPV)	Finance Cost	Finance Leases Total
	£m	£m	£m	£m	£m	£m
Lease Payments due:						
Within 1 year	0.1	0.2	0.3	0.1	0.2	0.3
2 to 5 years	0.3	0.8	1.1	0.3	0.8	1.1
Over 5 years	0.7	2.9	3.6	0.7	2.7	3.4
Total	1.1	3.9	5.0	1.1	3.7	4.8

### **Note 41: Impairment Losses**

During 2021/22, the Authority has not recognised any impairment losses (2020/21 nil). However, revaluations downwards of £21.8m (2020/21 £13.2m) have been recognised in the Revaluation Reserve and revaluations downwards of £12.1m (2020/21 £16.6m) have been recognised in the Comprehensive Income and Expenditure Statement. There have also been reversal of historical downwards revaluations of £6.1m (2020/21 £1.0m) in the Comprehensive Income and Expenditure Statement.

# **Note 42: 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 2021/22 are £0.6m (2020/21 £0.9m).



# Note 43: Contingent Liabilities

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 Accounts for the year to 30 June 2022, shows a balanced position. 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 any other uninsured losses.

# Note 44: Nature and Extent of Risks Arising from Financial Instruments

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

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

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

# (i) Credit risk

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

This risk is minimised through the Annual Investment Strategy. This requires that deposits are not made with financial institutions unless they meet certain identified minimum credit criteria as laid down by 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	£70m	£50m	£30m
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	£20m	£10m
Maximum Loan Period	1 year	6 months
Minimum Fitch Ratings	Included in Link list for	Included in Link list for
	period of 1 year or	period of 6 months
	more	

A maximum of £50m 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 = £30m 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 2022 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 <sup>st</sup> March 2021 £m	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 22	Estimated maximum exposure to default and un- collectability	Amount at 31 <sup>st</sup> March 2022
			%	£m	£m
Deposits with banks and financial institutions	308.2	0.0	0.0	0.0	387.3
Sales ledger	47.9	0.2	0.0	0.0	42.0
Total	356.1				429.3



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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:

2020/21 £m		2021/22 £m
36.7	Less than three months	25.8
2.1	Three to six months	3.9
3.3	Six months to one year	4.7
5.6	More than one year	7.6
47.7	Total	42.0

In respect of the above sales ledger debt, the Authority has made a provision of £6.5m 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 2021		31 March 2022
£m		£m
	Analysis of Loan Maturity Profile:	
3.7	Less than 1 year	3.7
3.7	Total Short Term Loans by Maturity	3.7
1.0	Between 1 and 2 years	1.0
6.4	Between 2 and 5 years	6.5
2.1	Between 5 and 10 years	1.6
0.3	Between 10 and 15 years	0.3
0.4	Between 15 and 20 years	0.4
17.9	Between 20 and 25 years	23.7
48.1	Between 25 and 30 years	58.2
110.3	Between 30 and 35 years	109.5
25.2	Between 35 and 40 years	9.9
20.1	Between 40 and 45 years	20.1
33.5	Greater than 45 years	33.5
265.3	Total Long Term Loans by Maturity	264.7
269.0	Total Loans by Maturity	268.4

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 2022, 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	3.3
Increase in government grant receivable for financing costs	0.0
Impact on Surplus or Deficit on the Provision of Services	3.3
Decrease in fair value of fixed rate investment assets	(11.0)
Impact on Other Comprehensive Income and Expenditure	(11.0)
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or	
Deficit on the provision of Services or Other Comprehensive Income and	
Expenditure)	(76.7)

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 45: 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	425,000	
Fidelity guarantee	100,000	
Motor	1,250	

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 46: 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 2021	Income	Expenditure	Balance at 31 March 2022
	£m	£m	£m	£m
Trust Funds:				
Kibworth High School Endowment	0.3	0.0	0.0	0.3
Bradgate Park & Swithland Wood Charity *	1.3	1.8	(1.4)	1.7
Others	0.3	0.0	0.0	0.3
Total Trust Funds	1.9	1.8	(1.4)	2.3

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



# **Note 47: Accounting Policies**

### 1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. 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 2021/22 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 than anticipated is made) the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the 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 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 of 1 October 2020. 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.

- Land and Buildings Schools: the Code confirms that local authority maintained schools (and the governing bodies thereof) are to be treated as entities for control purposes, and that the transactions of said schools shall be consolidated into the local authority single entity financial statements. Non-current assets attributed to schools are therefore recognised in the Authority's balance sheet, subject to the Authority (or the school's governing body) having control over the asset and it being probable that future service potential will flow to the Authority (or to the school). The Authority therefore recognises the non-current assets of its maintained community and voluntary controlled schools on its balance sheet. The balance of control and service potential is considered to reside with independent trustees for foundation and voluntary aided schools, and so these assets are not consolidated into the Authority's balance sheet (the Council retains the statutory responsibility for land at voluntary aided schools, so this is recognised as an asset of the Authority). A number of schools in the County now hold academy status. Academies are managed completely independently of the Authority, and funding is provided directly by central government. Whilst the Authority retains the freehold of the land, premises are leased to the academy on a finance-lease basis (for a 125 year term). Therefore academy buildings are derecognised from the Authority's balance sheet, and land is retained at a nominal value reflecting its restricted use.
- 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 the £20,000 deminimis level are then recognised in the Comprehensive Income and Expenditure Statement as capital expenditure not increasing in value.
- Infrastructure Assets: include carriageways, footways and cycle tracks, structures (eg bridges), street lighting, street furniture (eg illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network. Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the authority and the cost of the item can be measured reliably. Highways infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April [1994 England and Scotland] [1996 Wales], which was deemed at that time to be 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.

When a component of infrastructure assets are disposed of or decommissioned, the carrying amount of the component in the Balance Sheet is written off to the 'Other operating expenditure' line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). The written-off amounts of disposals are not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the capital adjustment account from the General Fund Balance in the Movement in Reserves Statement.

#### **Impairment of Assets**

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

• Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).



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

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

### 7. Heritage Assets

The Authority's Heritage Assets are held in the Authority's museums and other cultural sites. Heritage Assets are categorised into 7 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;

- Historic Buildings
- The Museum Art Collection
- The Art Works Collection
- The Archaeological Collection
- The Fashion Collection
- The Working Life 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 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. Assets are depreciated using the straight line method over the following periods:

- Intangible Assets 5 years
- Buildings varies from asset to asset (the remaining useful economic life of each asset is reviewed at the same time as the revaluation is completed, new builds are usually estimated to have a useful life of 70 years).
- Infrastructure useful lives of the various parts of the highways network are assessed by the Chief Highways Engineer using industry standards where applicable as follows:

Part of the highways network	Useful Life (years)
Carriageways	25
Footways and cycle tracks	25
Structures (bridges)	100
Street lighting	40
Street furniture	25
Traffic management systems	20



- Vehicles, Plant, Furniture and Equipment estimated useful life (averaging around 5 years).
- Components will vary between 20 50 years for new components/blocks

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.

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 contracts, whether for services or the provision of goods, is recognised when the goods or services are transferred to the recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.



- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded 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.

### **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.

### **15. Financial Instruments**

Financial instruments are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cashflow characteristics.

#### Financial Liabilities

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. For the Council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest). Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability,



multiplied by the effective rate of interest for the instrument.

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.

#### Financial Assets

Financial assets are classified into one of three categories:

- I. Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.
- II. Fair Value Through Other Comprehensive Income (FVOCI). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- III. Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances outstanding at the date of derecognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES. Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

The value of debtors and creditors reported in the Notes to the Statement of Accounts are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the balance sheet and Notes include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

#### 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 Code.

### **16. 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 as shown in the assumptions in Note 16 to the accounts. 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 pension 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.

### 17. 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.

### 18. 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 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.



#### Notes to the Accounts

### **19.** 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.

### 20. 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.

### 21. 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.

### 22. 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.

### 23. 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.

### 24. 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.

### 25. 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:



# 101 Notes to the Accounts

**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. L. BRECKON CABINET LEAD MEMBER FOR CORPORATE RESOURCES 21 MARCH 2023

### 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.
- Assessed the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- Used the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future; and
- Maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 2022.

C TAMBINI DIRECTOR OF CORPORATE RESOURCES 21 MARCH 2023



# Leicestershire County Council Pension Fund Accounts 2021/22

(Registration number: 00328856RQ)

# Introduction

The Leicestershire County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Leicestershire County Council.

### General

The scheme is governed by the Public Service Pension Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

It is a contributory defined benefit pension scheme administered by Leicestershire County Council to provide pensions and other benefits for pensionable employees of Leicestershire County Council, Leicester City Council, the district councils in Leicestershire and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The fund is overseen by the Leicestershire County Council Pension Fund Committee, which is a committee of Leicestershire County Council.

The Pension Committee consists of ten voting members and three non-voting staff representatives. The voting members are split into five Council members, two from Leicester City Council and two representing the District Councils and a single member representing Universities. The Committee receives investment advice from the funds Actuary, Hymans Robertson LLP, and meets quarterly to consider relevant issues.

### Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the fund include the following:

- Scheduled bodies, which are automatically entitled to be members of the fund.
- Admitted bodies, which participate in the fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not for profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.



#### **Pension Fund Accounts**

Membership details are set out below:

	31-Mar-21	31-Mar-22
Number of employers	283	286
Number of employees in the scheme (Actives)		
County Council	8,474	8,554
Other employers	28,498	28,585
Total	36,972	37,139
Number of pensioners		
County Council	11,641	11,962
Other employers	18,448	19,435
Total	30,089	31,397
Deferred pensioners*		
County Council	12,145	9,791
Other employers	25,458	20,913
Total	37,603	30,704
Total number of members in the pension scheme	104,664	99,240

\*Deferred pensioners figures as at 31<sup>st</sup> March 2021 include figures of 2,142 for the County Council and 4,992 for other employers in respect of frozen refunds and undecided leavers which have not been included in the figures as at 31<sup>st</sup> March 2022.

#### Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% and 12.5% of pensionable pay for the financial year ending 31 March 2022. Employers contributions are set based on triennial actuarial funding valuations. In 2021/22 the average employer rate was 25.6% of pay (25.4% 2020/21).

#### Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based in final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49<sup>th</sup>. Accrued pension is updated annually in line with the Consumer Prices Index. A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the LGPS website, https://www.leicestershire.gov.uk.



# Fund Account for the Year Ended 31 March 2022

2020/21			2021/22
£m		Notes	£m
	Contributions		
(183.0)	Employer Contributions	6	(192.5)
(45.1)	Member Contributions	6	(47.0)
(5.3)	Transfers in from Other Pension Funds	7	(9.9)
(233.4)	Total Contributions		(249.4)
132.1 27.5 5.0	<b>Benefits</b> Pensions Commutation of Pensions and Lump Sum Retirement Benefits Lump Sum Death Benefits	8 8	137.3 34.2 5.7
6.7	Payments to and on Account of Leavers	9	17.4
171.3	Total Benefits		194.6
(62.1)	Net (Additions)/Withdrawals from Dealings with Members	10	(54.8)
45.3	Management Expenses	10	42.5
(16.8)	Net (Additions)/Withdrawals Including Fund Management Expenses		(12.3)
	Returns on investments		
(30.7)	Investment income	11	(43.6)
(979.5)	(Profit) and Losses on Disposal of Investments and Changes in Value of Investments	12	(551.9)
(1,010.2)	Net Returns on Investments (Sub Total)		(595.5)
(1,027.0)	Net (Increase) / Decrease in the Net Assets Available for Benefits fund During the Year		(607.8)
	Net assets of the scheme		
(4,155.2)	Opening		(5,182.2)
(5,182.2)	Net assets of the scheme Closing		(5,790.0)

# Net Assets Statement as at 31 March 2022

2020/21			2021/22
£m		Notes	£m
5,183.5	Investment assets	12	5,771.2
(10.9)	Investment liabilities	12	(0.7)
5,172.6			5,770.5
15.3	Current Assets	15	25.4
(5.7)	Current Liabilities	15	(5.9)
5,182.2	Net Assets of the Fund at 31 March		5,790.0



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#### Pension Fund Accounts

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 84 to 112 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 2021/22 financial year and its position as at 31 March 2022. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2021/22.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take account of the actuarial present value of promised retirement benefits. The Fund has disclosed this information, by appending a copy of the report to the Pension Fund accounts.

The Accounts have been prepared on a going concern basis.

# 2. Accounting Policies

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

### Fund Account - Revenue Recognition

#### **Contribution Income**

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset.

#### Transfers to and from other Schemes

Transfers in and out relate to members who have either joined or left the fund. Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In, shown in Note 7. Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.



#### Investments

Interest Income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend Income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight line basis over the terms of the lease.

Changes in the value of investments are recognised as income and comprise all realised and unrealised profit/losses during the year.

### **Fund Account – Expense Items**

#### **Benefits Payable**

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

#### Taxation

The fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

#### **Management Expenses**

The fund discloses management expenses for administration, oversight and governance, and investment management. The disclosures comply with the CIPFA guidance 'Accounting for Local Government Pension Scheme Management Expenses (2016).

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 10A and grossed up to increase the change in value of investments.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

#### **Net Assets Statement**

#### 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.



#### **Pension Fund Accounts**

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 12 discloses the forward foreign exchange settled trades as net receipts and payments.

#### **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.

#### **Cash and Cash Equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

#### **Financial Assets**

Financial Assets classes as amortised cost are carried in the net assets statement at amortised cost, i.e. the outstanding principal as at the year end date.

#### **Financial Liabilities**

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains and losses arising from changes in the fair value of the liability between contract date, the year end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments. Other financial liabilities classed as amortised cost are carried at amortised cost, i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest.

#### **Actuarial Present Value of Promised Retirement Benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by appending a copy of the report to the Pension Fund Accounts.

#### **Additional Voluntary Contributions**

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. AVC's are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, but are disclosed for information in Note 26.

#### **Contingent Assets and Contingent Liabilities**

A contingent asset arises where an event has taken place giving rise to a plausible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent



liabilities can also arise in circumstances where a provision would be made, except that is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

#### **Directly Held Property**

The fund's property portfolio includes a number of directly owned properties which are leased commercially to various tenants. The fund has determined that these contracts all constitute operating lease arrangements under IAS 17 and the Code, and therefore the properties are retained on the net assets statement at fair value. Rental income is recognised in the fund account on a straight line basis over the life of the lease.

# 3. Critical Judgements in Applying Accounting Policies

It has not been necessary to make any material critical judgements in appltig the accounting policies.

# 4. Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historic experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment in the following year are as follows:

ltem	Uncertainties	Effect if Actual Results Differ from Assumptions
Private Equity Investments	Private equity investments are valued at fair value. Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £434m in the financial statements. There is a risk that this investment may be under or overstated in the accounts. If this was under or over stated by 5% the value of the investmest would increase or decrease by £22m
Freehold, Leasehold Property and Pooled Property Funds	Valuations techniques are used to determine the carrying amount of pooled property funds and directly held freehold property. Where possible these valuation techniques are based on observable data but where this is not possible management uses the best available data.	The carrying value of all property held by the fund is £483m. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property based investments. If this was under or over stated by 5% the value of the investmest would increase or decrease by £24m.
Pooled Bond and Debt Funds (including Private Debt Funds)	Pooled bond and debt funds are valued on a net asset basis in accordance with each investment managers valuation policy. Where possible these valuation techniques are based on observable market data but where it is not possible management uses the best data available. Private debt funds are valued in accordance with each investment managers valuation policy. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Pooled bond and debt funds are valued at £375m in the financial statements. There is a risk that this investment may be under or overstated in the accounts. If this was under or over stated by 5% the value of the investmest would increase or decrease by £19m



## Pension Fund Accounts

ltem	Uncertainties	Effect if Actual Results Differ from Assumptions
Infrastructure	Infrastructure funds are valued in	Infrastructure funds are valued at £327m in the
Investments	accordance with each investment managers	financial statements. There is a risk that this
	valuation policy. Where possible these	investment may be under or overstated in the
	valuation techniques are based on	accounts. If this was under or over stated by 5%
	observable data but where it is not possible	the value of the investmest would increase or
	management uses the best data available.	decrease by £16m
Timberland	Investments are carried at net asset value	Timberland funds are valued at
Investment	as determined by the General Partner. In	£132m in the financial statements. There is a risk
	most cases fair value is derived from the	that this investment may be under or overstated
	audited financial statements provided by an	in the accounts. If this was under or over stated
	underlying fund manager. In circumstances	by 5% the value of the investmest would increase
	where audited financial statements are not	or decrease by £7m
	available, the valuations are then derived	
	from unaudited quarterly reports.	
Pooled	Pooled targeted return funds are valued on	Pooled targeted return funds are valued at
Targeted	a net asset basis in accordance with each	£150m in the financial statements. There is a risk
Return Funds	investment managers valuation policy.	that this investment may be under or overstated
	Where possible these valuation techniques	in the accounts. If this was under or over stated
	are based on observable market data but	by 5% the value of the investmest would increase
	where it is not possible management uses	or decrease by £7.5m
	the best data available	
Pooled	Pooled commodity funds are valued on a	Pooled commodity funds are valued at
commodity	net asset basis in accordance with each	£16m in the financial statements. There is a risk
funds	investment managers valuation policy.	that this investment may be under or overstated
	Where possible these valuation techniques	in the accounts. If this was under or over stated
	are based on observable market data but	by 5% the value of the investmest would increase
	where it is not possible management relies	or decrease by £0.8m
	on the best data available	

# 5. Events after the Reporting Date

The Statement of Accounts was authorised for issue by the Director of Corporate Resources on 21 March 2023. 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 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information (where known). There are no material events after the reporting date that would require an adjustment or additional disclosure to the accounts.

# 6. Contributions

2020/21 £m		2021/22 £m
	Employers	
169.2	Normal	179.9
10.7	Deficit Repair	9.2
0.0	Voluntary additional	0.0
1.4	Advanced payments for early retirements	1.4
1.8	Additional payments for ill-health retirements	2.0
	Members	
44.6	Normal	46.5
0.4	Purchase of additional benefits	0.5



# 111 Pension Fund Accounts 228.1 Total 239.5

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:

2020/21 £m		2021/22 £m
55.1	Leicestershire County Council	59.1
162.3	Scheduled bodies	170.0
10.7	Admitted bodies	10.4
228.1	Total	239.5

# 7. Transfers In

2020/21 £m		2021/22 £m
5.3	Individual transfers in from other schemes	9.2
0.0	Bulk transfers in from other schemes	0.7
5.3	Total	9.9

# 8. Benefits

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

2020/21		2021/22
£m		£m
56.9	Leicestershire County Council	59.8
99.1	Scheduled bodies	108.4
8.6	Admitted bodies	9.0
164.6	Total	177.2



# 9. Payments to and on Account of Leavers

2020/21 £m		2021/22 £m
0.6	Refunds to members leaving the scheme	0.8
6.1	Individual transfers to other schemes	13.3
0.0	Bulk transfers to other schemes	3.3
6.7	Total	17.4

# **10.** Management Expenses

2020/21 £m		2021/22 £m
43.6	Investment Management Expenses (Note 10A)	39.7
1.4	Pension Scheme Administration Costs	1.9
0.3	Oversight and Governance Expenses	0.9
45.3	Total	42.5

# **10a.** Investment Management Expenses

2020/21 £m		2021/22 £m
23.3	Management Expenses	23.9
13.2	Transaction Costs	5.9
7.1	Performance Related Fees	9.9
43.6	Total	39.7

# **11.** Investment Income

2020/21 £m		2021/22 £m	
0.9	Dividends from equities	1.6	
0.0	Income from Government Bonds	0.2	
1.4	Income from index-linked securities	1.2	
22.5	Income from pooled investment vehicles	31.8	
5.8	Net rents from properties	5.7	
1.0	Interest on cash or cash equivalents	0.1	
(0.9)	Net Currency Profit / (Loss)	3.0	
30.7	Total	43.6	



#### **Pension Fund Accounts**

# 12. Investments

	Value at 1 April 2021	Purchases at Cost and Derivative Payments	Sales Proceeds and Derivative Receipts	Change In Market Value	Value at 31 March 2022
	£m	£m	£m	£m	£m
Equities	63.1	27.8	(50.9)	6.0	46.0
Government Bonds	3.3	19.0	(13.6)	(0.2)	8.5
Index-linked securities	288.4	178.9	(197.6)	11.1	280.8
Pooled investment vehicles	4,375.2	616.6	(420.2)	541.8	5,113.4
Properties	108.6	0.5	0.0	11.2	120.3
Derivatives contracts	3.9	30.4	(3.3)	(18.0)	13.0
Cash and currency &					
other investment	330.1	0.0	(141.6)	0.0	188.5
balances					
Total	5,172.6	873.2	(827.2)	551.9	5,770.5

	Value at 1 April 2020	Purchases at Cost and Derivative Payments	Sales Proceeds and Derivative Receipts	Change In Market Value	Value at 31 March 2021
	£m	£m	£m	£m	£m
Equities	33.8	40.4	(29.2)	18.1	63.1
Government Bonds	0.7	16.3	(13.6)	(0.1)	3.3
Index-linked securities	339.9	160.5	(218.3)	6.3	288.4
Pooled investment					
vehicles	3,527.4	1,145.8	(1,166.9)	868.9	4,375.2
Properties	99.6	9.7	0.0	(0.7)	108.6
Derivatives contracts	57.0	4.0	(144.1)	87.0	3.9
Cash and currency and other investment balances	88.5	241.6	0.0	0.0	330.1
Total	4,146.9	1,618.3	(1,572.1)	(979.5)	5,172.6

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 the following investments which exceed 5% of the total net value of assets:

2020/21 £m		2021/22 £m
775.0	LGPS Central – All World Equity Climate Multi Factor Fund	890.6
454.5	LGPS Central - Global Equity Active Multi Manager Fund	513.6
328.4	Legal and General North America Index Fund	366.0
1,557.9	Total	1,770.2



## Pension Fund Accounts

2020/21		2021/22
£m		£m
	Equities	
29.3	UK quoted	24.0
1.3	UK unquoted	1.3
32.5	Overseas quoted	20.7
63.1		46.0
	Government Bonds	
0.0	UK Government Unquoted	0.0
2.6	UK Government Quoted	0.0
0.0	Overseas Quoted	7.8
2.6		7.8
	Corporate Bonds	
0.7	UK unquoted	0.7
0.7		0.7
	Index Linked Securities	
255.8	UK quoted	269.2
32.6	Overseas quoted	11.6
288.4		280.8
	Pooled investment vehicles	
	(unquoted)	
267.9	Property funds	362.6
363.9	Private equity	433.5
670.5	Bond and debt funds	926.6
0.1	Hedge funds	0.0
2349.8	Equity-based funds	2,581.3
12.8	Commodity-based funds	16.2
134.1	Timberland fund	132.3
146.7	Managed futures fund	184.2
183.2	Targeted return fund	150.2
246.2	Infrastructure fund	326.5
4,375.2	Description	5,113.4
100.0	Properties	120.2
108.6	UK (Note 14)	120.3
331.1	Cash and currency	187.1
2.1	Derivatives contracts	5.0
2.1	Forward foreign exchange assets	5.3
10.1	Other option assets	8.4
(8.3)	Forward foreign exchange liabilities	(0.7)
3.9	Sterling Denominated	13.0
(1.0)	Other Investment Balances	1.4
5,172.6	Total Investments	5,770.5



# 13. Derivatives

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

#### **Forward Foreign Exchange Contracts**

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

	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
Settlement		Millions		Millions	£m	£m
Within 1 Month	GBP	0.3	AUD	0.5	0.0	(0.0)
	GBP	13.0	EUR	15.6	0.0	(0.2)
	GBP	6.9	USD	9.3	0.0	(0.1)
1 - 3 Months	GBP	374.3	USD	489.0	2.8	0.0
	GBP	88.6	TWD	3,275.0	1.2	0.0
	GBP	30.9	JPY	4,756.0	1.0	0.0
	GBP	36.2	CNY	303.0	0.1	0.0
	GBP	4.7	SEK	57.7	0.1	0.0
	GBP	3.8	HKD	39.0	0.1	0.0
	GBP	41.6	EUR	49.3	0.0	(0.1)
	GBP	17.0	INR	1,725.0	0.0	(0.1)
	GBP	6.5	KRW	10,500.0	0.0	(0.1)
	GBP	13.6	CHF	16.4	0.0	(0.1)
	GBP	3.4	DKK	30.2	0.0	(0.0)
	GBP	3.8	THB	167.5	0.0	(0.0)
	GBP	5.9	EUR	6.9	0.0	(0.0)
	GBP	9.6	USD	12.6	0.0	(0.0)
Open forward currency contracts at 31 March 2022					5.3	(0.7)
Net forward curren	cy contracts a	t 31 March 20	22		4.6	

Prior Period Comparison:		
Open forward currency contracts at 31 March 2021	2.1	(8.2)
Net forward currency contracts at 31 March 2021		(6.1)

#### 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:

2020/21 £m		2021/22 £m
10.1	Equity rate-based	8.4
10.1	Total	8.4



# 14. Property Investments

31 March 2021 £m		31 March 2022 £m
83.5	Freehold	96.2
17.5	Long Leasehold (over 50 years unexpired)	17.5
7.6	Medium/Short Leasehold (under 50 years	6.6
	unexpired)	
108.6	Total	120.3

All properties, with the exception of the Fund's farm investment, were valued on an open market basis by Nigel Holroyd and Adrian Payne of Colliers Capital UK Limited at 31st March 2022. The Fund's farm was valued on an open market basis by James Forman of Leicestershire County Council. All of the Valuers are Members of the Royal Institute of Chartered Surveyors.

# **14A Property Holdings**

31 March 2021 £m		31 March 2022 £m
99.6	Opening Balance	108.6
	Additions:	
9.6	Purchases	0.0
0.1	Subsequent Expenditure	0.5
0.0	Disposals	0.0
(0.7)	Net increase in market Value	11.2
108.6	Total	120.3

# 15. Current Assets and Liabilities

2020/21 £m		2021/22 £m
10.9	Contributions due from employers	20.1
4.4	Other Debtors	5.3
15.3	Current assets	25.4
(1.8)	Due to Leicestershire County Council	(1.7)
(1.8)	Fund Management Fees Outstanding	(2.1)
(2.0)	Other Creditors	(2.1)
(5.7)	Current liabilities	(5.9)
9.6	Net current assets and liabilities	19.5

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

# 16. 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:-



#### Pension Fund Accounts

At 31 March			At 31 March	
2021			2022	
£m	%		£m	%
		Investments Managed by LGPS Central Pool		
775.0	15.1	All World Equity Climate Multi Factor Fund	890.6	15.4
		Global equities multi-manager fund:		
129.5	2.4	Harris	145.8	2.4
173.1	3.3	Schroders	195.6	3.3
151.8	3.0	Union	172.3	3.0
		Global Active MAC Multi Manager Fund		
0.0	0.0	Western Asset Management	110.6	2.0
0.0	0.0	BMO	111.4	2.0
		Emerging market equities multi-manager fund:		
68.7	1.3	ВМО	66.0	1.1
74.9	1.5	UBS	62.2	1.1
71.1	1.4	Vontobel	63.1	1.1
		Global Active Emerging Market Bond MMF		
53.9	1.1	Amundi	59.6	1.1
53.9	1.1	M&G	59.9	1.1
		Global Active Investment Grade Corporate Bond MMF		
53.1	1.0	Neuberger Berman	62.2	1.1
53.0	1.0	Fidelity	63.5	1.1
0.0	0.0	LGPS Central Core/Core Plus Infrastructure Partnership LP	21.7	0.3
3.9	0.1	LGPS Central PE primary partnership 2018 LP	6.6	0.1
0.0	0.0	LGPSC Credit Partnership II LP	6.2	0.1
0.0	0.0	LGPSC Credit Partnership I LP	3.6	0.1
1,661.9	32.3	Sub Total	2,100.9	36.4
		Investments Managed outside of Pool		
883.4	17.1	Legal & General Investment Management Limited	975.8	16.9
449.4	8.7	Aegon Asset Management Limited (Formerly Kames Capital)	455.8	7.9
334.3	6.4	Adams Street Partners L.P.	394.7	6.8
192.8	3.7	LaSalle Limited	276.6	4.8
265.9	5.1	Partners Group Limited	236.0	4.1
146.7	2.9	Aspect Capital Limited	184.2	3.2
206.0	3.9	Ruffer LLP	153.6	2.6
183.2	3.5	Pictet Asset Management Limited	150.2	2.6
129.0	2.5	Colliers Capital UK Limited	135.9	2.5
134.1	2.6	Stafford Capital Partners Limited	132.3	2.3
106.6	2.1	IFM Investors (UK) Ltd	131.4	2.3
173.6	3.3	Internally Managed	121.7	2.1
114.1	2.2	JP Morgan Asset Management (UK) Limited	108.7	1.9
71.6	1.4	M&G	81.6	1.4
38.0	0.7	Kravis Kohlberg Roberts & Co. Ltd	39.7	0.7
38.0	0.7	Cristofferson, Robb & Company Ltd	34.2	0.6
24.9	0.5	Aberdeen Standard Life Limited	31.4	0.5
18.2	0.4	Infracapital	25.0	0.4
0.8	0.0	Catapult Venture Managers Limited	0.8	0.0
3,510.6	67.7	Sub Total	3,669.6	63.6
5,172.6	100.0	Grand Total	5,770.5	100.0



# **17.** 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.

# 18. Operation and Management of fund

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

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

A full list of all bodies that have active members within the Fund is included in the in the Pensions fund annual report available from the fund website.

# 20. Fair value – basis of valuation

Unquoted equities in LGPS Central asset pool are valued at cost, as an appropriate estimate of fair value. All other investments are held at fair value in accordance with the requirements of the Code and IFRS 13. The valuation bases are set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. There has been no change in the valuation techniques used during the year.

Description of Asset	Valuation Hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting valuations provided
Market quoted Investments (equities and bonds)	Level 1	Published bid market price ruling on final day of the accounting period	Not required	Not required
Market quoted pooled funds	Level 1	Closing bid price or closing single price at reporting date	Not required	Not required
Forward foreign exchange contracts	Level 1	Market forward exchange rates at reporting date	Not required	Not required
Pooled investment vehicles	Level 2	Fair value based on the weekly market quoted prices of the respective underlying securities	When considering the fair value of assets which are not at the reporting date, the price of a recent transaction for an identical asset provides evidence of fair value	Not Required
Unquoted Equity (including Private Equity, Infrastructure and Timberland)	Level 3	Value is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports.	Earnings before interest, tax, depreciation, and amortisation (EBITDA) multiple, revenue multiple, discount for lack of marketability.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts.



#### Pension Fund Accounts

Private Debt	Level 3	Valued at fair value in accordance with International Valuation Standards and investment managers valuation policy	Comparable valuation of similar assets, EBITDA multiple, Revenue multiple, Discounted cash flows, Enterprise value estimation	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts.
Pooled investment vehicles (including targeted return funds, commodity funds and pooled property funds)	Level 3	Stated at bid price quoted or closing single market price	Net asset value (NAV) based pricing set on a forward pricing basis.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts of the underlying assets.
Freehold and Leasehold Property	Level 3	Stated at open market value based on expert valuation provided by a RICS registered Valuer and in accordance with RICS guidelines.	Existing lease terms and rentals, independent market research, tenant covenant strength, estimated vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or discount rate could affect valuations

#### Sensitivity of assets valued at Level 3

The table below details the Fund's review of financial information as provided by independent advisors. The valuation methods detailed above are likely to be accurate to within the ranges and, as set out below, the consequent potential impact on the closing value of investments at 31 March 2022 and 31 March 2021.

Asset Type	Value at 31 <sup>st</sup> March 2022 £m	Percentage change %	Value on increase £m	Value on decrease £m
UK equities	1.3	18	1.5	1.1
UK Bonds	0.7	3	0.7	0.7
Pooled property funds	362.6	15	417.0	308.2
Pooled private equity funds	433.5	30	563.6	303.5
Pooled bond and debt funds	374.6	11	415.8	333.4
Pooled commodity funds	16.2	18	19.1	13.3
Pooled targeted return funds	150.2	5	157.7	142.7
Pooled timberland fund	132.3	18	156.1	108.5
Pooled infrastructure fund	326.5	18	385.3	267.7
UK property	120.3	15	138.3	102.3
Total assets available to pay benefits	1,918.2		2,255.1	1,581.4



#### Pension Fund Accounts

Asset Type	Value at 31 <sup>st</sup> March 2021	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
UK equities	1.3	18	1.5	1.1
UK Bonds	0.7	3	0.7	0.7
Pooled property funds	267.9	15	308.1	227.7
Pooled private equity funds	364.0	30	473.2	254.8
Pooled bond and debt funds	431.6	11	479.1	384.1
Pooled commodity funds	12.8	18	15.1	10.5
Pooled targeted return funds	183.2	5	192.4	174.0
Pooled timberland fund	134.1	18	158.2	110.0
Pooled infrastructure fund	246.2	18	290.5	201.9
UK property	108.6	15	124.9	92.3
Total assets available to pay benefits	1,750.4		2,043.7	1,457.1

# **20a.** Valuation of financial instruments and non-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 quoted 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 and non-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**

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 <sup>st</sup> March 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial and non-financial assets at fair value	2,504.5	1,160.0	1,918.2	5,582.7
Financial liabilities at fair value	(0.7)	0.0	0.0	(0.7)
Net financial and non-final assets carried at fair value	2,503.8	1,160.0	1,918.2	5,582.0

The above table excludes cash and cash equivalents of £187.1m and other investment balances of £1.4m which are carried at amortised cost.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 <sup>st</sup> March 2021				
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial and non-financial assets at fair value	2,070.3	1,030.1	1,750.4	5,183.5
Financial liabilities at fair value	(8.3)	0.0	0.0	(10.9)
Net financial and non-final assets carried at fair value	2,062.0	1,030.1	1,750.4	5,172.6

The above table excludes cash and cash equivalents of £331.1m and other investment balances of £-1.0m which are carried at amortised cost.

# 20b. Reconciliation of asset held at level 3

	Value at 1 April 2021	Purchases	Sales	Realised gains / (losses)	Unrealised gains or (losses)	Value at 31 March 2022
	£m	£m	£m	£m	£m	£m
UK Equities	1.3	0.0	0.0	0.0	0.0	1.3
UK Bonds	0.7	0.0	0.0	0.0	0.0	0.7
Pooled property funds	267.9	61.6	(21.9)	7.6	47.4	362.6
Pooled private equity funds	364.0	38.5	(90.2)	45.1	76.1	433.5
Pooled bond and debt funds	431.6	60.9	(146.3)	34.4	(6.0)	374.6
Pooled commodity funds	12.8	6.3	(5.7)	0.9	1.9	16.2
Pooled targeted return funds	183.2	0.0	(40.8)	8.6	(0.8)	150.2
Pooled timberland funds	134.1	0.0	(20.5)	1.8	16.9	132.3
Pooled Infrastructure funds	246.2	62.3	(16.6)	8.7	25.9	326.5
UK Property	108.6	0.5	0.0	0.0	11.2	120.3
Total	1,750.4	230.1	(342.0)	107.1	172.6	1,918.2



# 21. Classification of Financial Instruments

	2020/21 £m				2021/22 £m	
Fair value through profit and loss	Assets at amort- ised cost	Liabilities at amort- ised cost		Fair value through profit and loss	Assets at amort- ised cost	Liabilities at amort- ised cost
			Financial Assets			
63.1	0.0	0.0	Equities	46.0	0.0	0.0
3.2	0.0	0.0	Government Bonds	8.5	0.0	0.0
288.5	0.0	0.0	Index-linked securities	280.8	0.0	0.0
4,339.7	0.0	0.0	Pooled investment vehicles	5,121.7	0.0	0.0
2.1	0.0	0.0	Derivatives contracts	5.3	0.0	0.0
0.0	331.2	0.0	Cash and currency	0.0	187.1	0.0
0.0	0.0	0.0	Other investment balances	0.0	0.0	0.0
0.0	1.0	0.0	Sundry debtors and prepayments	0.0	0.8	0.0
4,696.6	332.2	0.0		5,462.3	187.9	0.0
			Financial Liabilities			
(8.3)	0.0	0.0	Derivatives contracts	(0.7)	0.0	0.0
0.0	0.0	(2.6)	Other investment balances	0.0	0.0	0.0
0.0	0.0	(4.1)	Sundry Creditors	0.0	0.0	(4.4)
(8.3)	0.0	(6.7)		(0.7)	0.0	(4.4)

The value of debtors and creditors reported in the Notes to the Statement of Accounts are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the balance sheet and Notes include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

The following gains and losses are recognised in the Fund Account:

2020/21		2021/22
£m		£m
	Financial Assets	
943.8	Fair value through profit and loss	578.2
	Financial Liabilities	
0.2	Fair value through profit and loss	(8.3)
944.0	Total	569.9

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised I the financial statements. The fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.



#### Pension Fund Accounts

# 22. External Audit Fee

2020/21 £		2021/22 £
34,530	Payable in respect of external audit	33,193
34,530	Total	33,193

# 23. 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.



#### Pension Fund Accounts

#### 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 2021/22 reporting period:

Asset type	Potential market movements (+/-)
Cash	2%
Global government index-linked bonds	7%
UK equities	18%
Private equity	30%
Property	15%
Emerging Market Debt	15%
Infrastructure	18%
Targeted Return Fund (high equity beta)	13%
Targeted Return Fund (low equity beta)	5%
Multi Asset Credit	6%
Overseas equities (hedged)	18%
Overseas equities (unhedged)	19%
Private Debt	11%
Corporated Short dated Bonds	3%
Corporate Medium dated Bonds	7%
Emerging Martket Equities	26%

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

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

Asset Type	Value at 31 <sup>st</sup> March 2022	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
UK equities	25.3	18	29.9	20.7
Overseas equities	20.7	19	24.6	16.8
UK Corporate Bonds	0.7	3	0.7	0.7
Global index-linked bonds	288.6	7	308.8	268.4
Pooled property funds	362.6	15	417.0	308.2
Pooled private equity funds	433.5	30	563.6	303.5
Pooled bond and debt funds	926.6	8	1,000.7	852.5
Pooled hedge funds	0.0	18	0.0	0.0
Pooled equity funds	2,581.3	19	3,071.7	2,090.9
Pooled commodity funds	16.2	18	19.1	13.3
Pooled targeted return funds	150.2	5	157.7	142.7
Pooled timberland fund	132.3	18	156.1	108.5
Pooled managed futures fund	184.2	13	208.1	160.3
Pooled infrastructure fund	326.5	18	385.3	267.7
UK property	120.3	15	138.3	102.3
Cash and currency	187.1	2	190.8	183.4
Options, futures, other investment balances, current assets and current liabilities	14.4	2	14.7	14.1
Total assets available to pay benefits	5,770.5		6,687.1	4,854.0



#### **Pension Fund Accounts**

Asset Type	Value at 31 <sup>st</sup> March 2021	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
UK equities	30.6	18	36.1	25.1
Overseas equities	32.5	19	38.7	26.3
UK Corporate Bonds	0.7	3	0.7	0.7
Global index-linked bonds	291.1	7	311.5	270.7
Pooled property funds	267.9	15	308.1	227.7
Pooled private equity funds	363.9	30	473.1	254.7
Pooled bond and debt funds	670.4	8	724	616.8
Pooled hedge funds	0.1	18	0.1	0.1
Pooled equity funds	2349.6	19	2796	1903.2
Pooled commodity funds	12.8	18	15.1	10.5
Pooled targeted return funds	183.2	5	192.4	174
Pooled timberland fund	134.1	18	158.2	110
Pooled managed futures fund	146.7	13	165.8	127.6
Pooled infrastructure fund	246.2	18	290.5	201.9
UK property	108.6	15	124.9	92.3
Cash and currency	331.3	2	337.9	324.7
Options, futures, other investment balances, current assets and current liabilities	2.9	1	3.0	2.8
Total assets available to pay benefits	5,172.6		5,976.1	4,369.1

#### Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31st March 2022 and 31st March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

As at 31 <sup>st</sup> March 2021 £m	Asset type	As at 31 <sup>st</sup> March 2022 £m
331.3	Cash and Currency	187.1
291.1	Fixed interest securities	288.6
622.4	Total	475.7

#### 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.



#### **Pension Fund Accounts**

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. The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

Exposure to interest rate risk	Carrying amount as at 31 <sup>st</sup> March 2022	Impact of increase	Impact of decrease
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and Currency	187.1	187.1	187.1
Fixed interest securities	288.6	291.5	285.7
Total	475.7	478.6	472.8

Exposure to interest rate risk	Carrying amount as at 31 <sup>st</sup> March 2021	Impact of increase	Impact of decrease
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and Currency	331.1	331.1	331.1
Fixed interest securities	291.0	294.0	288.2
Total	622.1	625.1	619.3

#### Assets exposed to interest rate risk:

Exposure to interest rate risk	Interest receivable 2021/22	Impact of increase	Impact of decrease
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and Currency	0.1	2.7	0.0
Fixed interest securities	1.4	1.4	1.4
Total	1.5	4.1	1.4

Exposure to interest rate risk	Interest receivable 2020/21	Impact of increase	Impact of decrease
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and Currency	1.0	3.1	0.0
Fixed interest securities	1.4	1.4	1.4
Total	2.4	4.5	1.4

#### **Currency risk**



#### **Pension Fund Accounts**

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 25% of the exposure back to sterling. The table below summarises the Fund's currency exposure if it was unhedged as at 31st March 2021 and as at the previous period end:

Asset value as at 31 <sup>st</sup> March 2021 £m	Currency exposure – asset type	Asset value as at 31 <sup>st</sup> March 2022 £m
32.5	Overseas equities	20.7
0.0	Overseas government bonds	7.8
32.6	Overseas government index-linked bonds	11.6
766.8	Overseas pooled investment vehicles	874.4
63.4	Overseas cash and currency	60.9
895.3	Total overseas assets	975.4

#### **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 <sup>st</sup> March 2022	Change to net asse bene	
		13%	-13%
	£m	£m	£m
Overseas equities	20.7	23.4	18.0
Overseas government bonds	7.8	8.8	6.8
Overseas government index-linked bonds	11.6	13.1	10.1
Overseas pooled investment vehicles	874.4	988.1	760.7
Overseas cash and currency	60.9	68.8	53.0
Total change in assets available	975.4	1,102.2	848.6

#### b) Credit Risk

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

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



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

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

Deposits are not made with banks and financial institutions unless they are rated independently and have a high credit rating. Many of the Fund's investment managers use the money market fund run by the Fund's custodian to deposit any cash within their portfolios, although one manager (Kames Capital) lends cash directly to individual counterparties in the London money markets. Any cash held directly by the Fund is deposited in an Aberdeen 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 2022 was £187m (31st March 2021: £331m).

#### 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 2022 the value of illiquid assets (considered to be the Fund's investments in property, hedge funds, private equity, timberland and infrastructure) was £1,377m, which represented 24% of total Fund assets. (31st March 2021: £1085m, which represented 21% 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 2022 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 2017/18 financial year and there was no stock on loan at 31 March 2022

#### **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.



# 24. Related Party Transactions

Leicestershire County Council (LCC) 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.

During the reporting period LCC incurred costs of £1.9m in relation to administration and management of the Fund, the full amount has been recharged to the Fund, and is recognised in the expenses outlined in note 10 above. As at the 31<sup>st</sup> March 2022 £1.7m of this was a creditor balance in the Fund accounts. Contributions of £59.1m were receivable from LCC during 2021/22 (£56.9m 2020/21) of which, £5.8m was still outstanding as at 31 March 2022 (£0 as at 31 March 2021).

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. £1.3m is invested in the share capital and £0.7m in a corporate bond with LGPS Central Ltd.

During 2021/22 a total of £0.9m was payable to LPGS Central Ltd for governance, operator and product development fees. Of these £0.9m was a creditor balance at the year end. As at 31 March 2022, £2.1bn of LCC LGPS investments were managed by LGPS Central Ltd (£1.7bn as at 31 March 2021).

# 25. Contingent Liabilities and Contractual Commitments

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 £2m, 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.

At 31<sup>st</sup> March 2022, the Fund had the following contractual commitments:-

	31-Mar-21	31-Mar-22
	£m	£m
Aberdeen Standard Life Capital SOF III Fund	10.0	10.3
Adams Street Partners L.P.	125.9	126.0
Catapult Venture Managers Limited	0.5	0.0
Infracapital Greenfield Partners I Fund	12.4	8.8
KKR Global Infrastructure	22.0	12.0
LGPS Central PE Primary Partnership 2018 LP	7.0	4.2
M & G Debt Opportunities Fund IV	2.8	6.3
Stafford International Timberland Funds VII & VIII	1.1	1.2
LGPSC Credit Partnership II LP	0.0	96.4
LGPSC Credit Partnership I LP	0.0	53.5
LGPS Central Core/Core Plus Infrastructure Partnership LP	0.0	48.1
LGPS Central PE Primary Partnership 2021 LP	0.0	30.0
CRC Capital Release Fund V	0.0	44.0
Partners Group Multi Asset Credit VI S.C.A., SICAV-RAIF	0.0	20.8
Total	181.7	461.6



# 25A Key Management Personnel

The fund has identified the Director of Coporate Resources (LCC) and the Assistant Director Finance, Strategic Property and Commisioning (LCC) as key management personnel with the authority and responsibility to control or exercise significant influence over the financial and reporting decisions of the fund. The combined compensation for these officers attributable to Leicestershire County Council Pension Fund\* is shown below:

2020/21		2021/22
£000s		£000s
19.5	Short-term benefits	20.9
5.1	Pension contributions	5.7
24.6		26.6

\*The amounts in the table were not recharged to the Fund but are presented as required by the code of practice.

# 26. 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(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. During 2021/22 £1.8m (2020/21 £1.6m) in contributions were paid to Prudential. The capital value of all AVC's at year end 31 March 2022 was £19.0m (31 March 2020 £18.6m).

# 27. Policy Statements

The Fund has a number of policy statements which can be found on the <u>LPGS website</u>. 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:

Investment Strategy Statement (ISS) Administration and Communication Strategy

Funding Strategy Statement (FSS)

# 28. 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 2021/22 (or 2020/21). 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.





# Leicestershire County Council Pension Fund ("the Fund") Actuarial Statement for 2021/22

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.

# **Description of Funding Policy**

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS). 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 (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 have a sufficiently high likelihood of achieving the funding target over 17 years. 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 at least a 75% likelihood that the Fund will achieve the funding target over 17 years.

## 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 Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £4,312 million, were sufficient to meet 89% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £537 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and liability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

# Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 formal 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.



## **Pension Fund Accounts**

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## 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 2019 valuation were as follows:

Financial assumptions	31 March 2019	
Discount rate	3.8%	
Salary increase assumption	2.8%	
Benefit increase assumption (CPI)	2.3%	

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 2018 model, an allowance for smoothing of recent mortality experience and a 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	21.5 years	23.8 years
Future Pensioners*	22.2 years	25.2 years

\*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

## **Experience over the period since 31 March 2019**

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be better than that reported at the previous formal valuation as at 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise.

Tom Hoare FFA

06 May 2022

For and on behalf of Hymans Robertson LLP



# **Pension Fund Accounts Reporting Requirement**

# Introduction

CIPFA's Code of Practice on Local Authority Accounting 2021/22 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Leicestershire County Council Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

# Present value of promised retirement benefits

Year ended	31 March 2022	31 March 2021
Active members (£m)	4,176	4,155
Deferred members (£m)	1,670	1,801
Pensioners (£m)	2,213	2,383
Total (£m)	8,059	8,339

The promised retirement benefits at 31 March 2022 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

# Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2022 and 31 March 2021. I estimate that the impact of the change in financial assumptions to 31 March 2022 is to increase the actuarial present value by £654m. I estimate that the impact of the change in demographic assumptions is to decrease the actuarial present value by £43m.



# **Financial assumptions**

Year ended (% p.a.)	31 March 2022	31 March 2021
Pension Increase Rate	3.20%	2.85%
Salary Increase Rate	3.70%	3.35%
Discount Rate	2.70%	2,00%

# **Demographic assumptions**

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.5 years	24.0 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	22.4 years	25.7 years

All other demographic assumptions are unchanged from last year and as per the latest funding valuation of the Fund.

# **Sensitivity Analysis**

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the obligations are set out below:

Change in assumption at 31 March 2022	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in the Discount Rate	2%	168
1 year increase in member life expectancy	4%	322
0.1% p.a. increase in the Salary Increase Rate	0%	16
0.1% p.a. increasein the Pension Increase Rate (CPI)	2%	151

# **Professional notes**

This paper accompanies the 'Accounting Covering Report - 31 March 2022' which identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:

Tom Hoare FFA

26 May 2022 For and on behalf of Hymans Robertson LLP



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

MR. L. BRECKON CABINET LEAD MEMBER FOR CORPORATE RESOURCES 21 MARCH 2023

## THE DIRECTOR OF CORPORATE RESOURCES RESPONSIBILITIES

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.
- Kept proper accounting records which were up to date,
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.
- Assessed the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- Used the going concern basis of accounting on the assumption that the functions of the Pension Fund will continue in operational existence for the foreseeable future; and
- Maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 2022 and its income and expenditure for the year ended the same date.

C TAMBINI DIRECTOR OF CORPORATE RESOURCES 21

MARCH

2023



# Independent auditor's report to the members of Leicestershire County Council

# **Report on the Audit of the Financial Statements**

#### **Opinion on financial statements**

We have audited the financial statements of Leicestershire County Council (the 'Authority') for the year ended 31 March 2022, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and notes to the primary statements, including the Statement of Responsibilities for the Statement of Accounts. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Corporate Resources use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Director of Corporate Resources conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Corporate Resources use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Director of Corporate Resources with respect to going concern are described in the 'Responsibilities of the Authority Director of Corporate Resources and Those Charged with Governance for the financial statements' section of this report.

#### **Other information**

The Director of Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

#### Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

# Responsibilities of the Authority, the Director of Corporate Resources and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities [set out on page 80], 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. The Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Corporate Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Corporate Governance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <u>www.frc.org.uk/auditorsresponsibilities</u>. This description forms part of our auditor's report.

#### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.
- We enquired of senior officers and the Corporate Governance Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Corporate Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - journals that altered the Authority's financial performance for the year;
  - potential management bias in determining accounting estimates, especially in relation to the calculation of the valuation of the Authority's land and buildings, investment property and defined benefit pensions liability valuations; and
  - accruals of income and expenditure at the end of the financial year.
- Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Director of Corporate Resources has in place to prevent and detect fraud;
- journal entry testing, with a focus on significant journals at the year-end which had an impact on the Authority's financial performance;
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, and defined benefit pensions liability valuations;
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, and defined benefit pensions liability valuations.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector
- understanding of the legal and regulatory requirements specific to the Authority including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA, LASAAC and SOLACE
  - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

# Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

# Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in respect of the above matter

#### **Responsibilities of the Authority**

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

# Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We have documented our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we have considered whether there is evidence to suggest that there are significant weaknesses in arrangements.

# Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Leicestershire County Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

#### Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 [and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Stocks, Key Audit Partner for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

Date:

# Independent auditor's report to the members of Leicestershire County Council on the pension fund financial statements of Leicestershire County Council Pension Fund

## Opinion

We have audited the financial statements of Leicestershire County Council Pension Fund (the 'Pension Fund') administered by Leicestershire County Council (the 'Authority') for the year ended 31 March 2022 which comprise the Pension Fund Introduction, Fund Account, the Net Assets Statement and notes to the accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2022 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Corporate Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Director of Corporate Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Corporate Resources' use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Director of Corporate Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Corporate Resources and Those Charged with Governance for the financial statements' section of this report.

#### **Other information**

The Director of Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

# Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

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

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.
- We have nothing to report in respect of the above matters in relation to the Pension Fund.

# Responsibilities of the Authority, the Director of Corporate Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 113, 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 is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Resources is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Director of Corporate Resources is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Corporate Governance Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <u>www.frc.org.uk/auditorsresponsibilities</u>. This description forms part of our auditor's report.

#### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Corporate Governance Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers and the Corporate Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and any other fraud risks identified for the audit. We determined that the principal risks were in relation to:
  - the valuation of level 3 investments; and
  - management override of control, in particular journals, management estimates and transactions outside the course of business.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Director of Corporate Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on material post year-end journal entries, journal entries posted by senior staff, journal entries identified as manual journal types and journal entries posted in unusually low activity general ledger accounts;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate

concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

#### Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Stocks, Key Audit Partner for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

Date



## Annual Governance Statement (AGS) 2021-22

## 1. Introduction

Leicestershire County Council (the Council) is responsible for ensuring that its business is conducted in accordance with prevailing legislation, regulation and 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 must have in place a solid foundation of good governance and sound financial management.

Regulations 6 (1) (a) and (b) of the Accounts and Audit Regulations 2015 require 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 CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework' (2016), 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.

Due to the impact of coronavirus (COVID -19) on Local Authorities, The Accounts and Audit (Amendment) Regulations 2021 amended the 2015 Regulations to extend the deadlines for relevant authorities to publish and make available for public inspection, their annual accounts and supporting documents in relation to the financial year beginning on 1st April 2020 and 2021.

## 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.

The Chartered Institute of Public Finance and Accountancy (CIPFA) 'Delivering Good Governance in Local Government; Framework (2016)' sets the standard for local authority governance in the UK and the Council is committed to the principles of good corporate governance contained in the Framework.

The Council has developed, adopted, and continued to maintain a Local Code of Corporate Governance which sets out the way the Council meets the principles outlined in the Framework. <u>The Code can be found on the LCC internet</u>.

## 3. Leicestershire's Vision and Outcomes

The County Council's Annual Delivery Report and Performance Compendium 2021 is part of the Council's policy framework and, as such, required the approval of the full County Council at its meeting on 1 December 2021. The documents provide performance data which will help the Council and its partners to ensure services continue to meet standards, provide value for money and that outcomes are being achieved for local people. It is best practice in performance management, and part of the Council's Internal Governance Framework, to undertake a review of overall progress at the end of the year and to benchmark performance against comparable authorities. It is also good practice to produce an annual performance report and ensure that it is scrutinised, transparent, and made publicly available.

The Annual Delivery Report described delivery, progress with implementing agreed plans and strategies, and achievements over the previous 12 months. It largely focused on performance against County Council priorities for community outcomes as set out in its Strategic Plan 2018-22 and other main service strategies. The Report also included information on the Council's significant ongoing response to the Covid-19 pandemic, the emergent implications for service demand and outcomes, higher levels of service and financial risk and work on service recovery. The Performance Compendium outlined the inequity in funding and the Council's Fair Funding proposals, transformation requirements and national and local service pressures, as well as detailed comparative performance metrics.

On 26 October 2021, the Cabinet approved the draft Strategic Plan (2022-26) for consultation. The council consulted a wide range of stakeholders including council officers and elected members, citizens, community groups and partners to identify the extent to which there was agreement with its long-term vision for Leicestershire and its priorities for 2022-26. The consultation included a public survey, interactive presentations including live polls and direct engagement through meetings and focus groups.

At its meeting on 18 May 2022, the County Council approved the Strategic Plan for 2022 to 2026.

The Strategic Plan (2022-26) provides an important strategic planning framework for the Council which will ensure that all service plans and strategies contribute to delivery of the Council's vision for Leicestershire. It has the following five priority outcome themes: -

Our Vision: An inclusive county in which active communities, great connections and greener living enable everyone to prosper, be happy and healthy.				
Strong Economy, Transport & Infrastructure	Improving Opportunities	Keeping People Safe & Well	Great Communities	Clean, Green Future
Leicestershire has a productive, inclusive and sustainable economy and infrastructure which meets the demands of a growing population and economy.	Every child gets the best start for life with access to a good quality education and everyone has the opportunities they need to fulfil their potential	The people of Leicestershire are safe and protected from harm and have the opportunities and support they need to take control of their health and wellbeing	Leicestershire has thriving, inclusive communities in which people support each other and participate in service design and delivery	The environment is protected and enhanced, and we tackle climate change, biodiversity loss and unsustainable resource usage

## 4. What the Annual Governance Statement Tells You

The AGS reports on the extent to which the Council has met the requirements of the Local Code of Corporate Governance and the controls it has in place to manage<sup>1</sup> risks of failure in delivering its outcomes. 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.

The 2021/22 AGS has been constructed by undertaking: -

- A review of the effectiveness of the system of internal control
- Reviewing other forms of assurance
- Reviewing the Council's response to (and recovery from) the COVID-19 virus
- Action taken on governance issues reported in the 2020/21 AGS
- Significant governance issues arising during 2021/22
- Future challenges

## 5. Review of Effectiveness of the System of Internal Control

To ensure the 2021/22 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 Local Code of Corporate Governance.

The AGS assesses governance in place during 2021/22, the Council's self-assessments were completed in April 2022 and therefore the whole of the year continued to be affected by the COVID-19 national emergency.

A senior officers group meets to review the compilation of the AGS. The group comprises

- Director of Law & 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
- Assistant Director Assistant Director Finance, Strategic Property & Commissioning
- Assistant Director Corporate Services
- Head of Internal Audit & Assurance Service

The group has determined that progressing areas identified for development, should be the responsibility of designated Directors and Heads of Service during 2022/23. A review of progressing the implementation of previous years planned developments will be undertaken. Any previous year's developments that were not carried forward into 2021/22 or reported through the Corporate Risk Register process will continue to be monitored.

## 6. Other Forms of Assurance

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. The Council has an approved Local Code of Corporate Governance, and this provides examples of good governance in practice.

<sup>&</sup>lt;sup>1</sup> 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 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**

The Council's Head of Internal Audit & Assurance Service (HoIAS) ensures that internal audit arrangements conform to the requirements of the Public Sector Internal Audit Standards (the PSIAS) revised in 2017 and the governance requirements and core responsibilities of the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2019).

The HoIAS works with the Corporate Management Team to give advice and promote good governance throughout the organisation. The HoIAS leads and directs the Internal Audit Service (IAS) 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 Council's control environment.

There is an Internal Audit Charter mandating the purpose, authority, and responsibility of the internal audit activity. The Charter allows the 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 reviews to be overseen by someone outside of the internal audit activity. An independent risk management maturity health check was undertaken during the autumn of 2018 and good progress continues to be made against the recommendations. The next review is planned in 2023.

To meet a PSIAS requirement to form an opinion on the overall adequacy and effectiveness of the Council's control environment i.e. its framework of governance, risk management and control, the HoIAS arranges a risk-based plan of audits. In July 2021 he informed the Corporate Governance Committee that he had moved to shorter planning periods of 6 months which is in line with his peers in other Councils.

IAS reports often contain recommendations for improvements. The number, type and importance of recommendations determines 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 the control environment. The HoIAS presented his annual report to Corporate Governance Committee on 13 May 2022 and his opinion read: -

Covid-19 and other staff absences and unplanned vacancies (along with a corresponding difficulty to recruit) caused some disruption to resources. Nevertheless, the HoIAS considers there was just sufficient input across the control environment to be able to give a full opinion. He gained internal assurance from senior management's transparency over reporting four significant governance issues in the draft AGS and risk positions in the Corporate Risk Register. Three audits returned partial assurance ratings, and there were some minor fraud investigations, but management responded to recommendations. Overall, reasonable assurance is given that the Council's control environment has remained adequate and effective.

The HoIAS' views on the Council's responses to the coronavirus during the year are also detailed.

## **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 decision making relating to the development of services and the transformation of the wider organisation. Regular reports and presentations on specific strategic and corporate risks to the Council are provided to the Corporate Governance Committee.

The Council's Risk Management Policy and Strategy (which provide the framework within which risks can be managed) were reviewed, revised, and approved by the County Council in February 2022. As the COVID-19 response continued, the Council progressed with its plans to recover and rebuild services, towards a 'new normal'.

## **Overview and Scrutiny**

The cross-party overview and scrutiny function monitors the County Council's financial performance and performance against targets in the Strategic Plan and other related plans on a regular basis.

The key areas of activity undertaken by the Scrutiny Commission during the year included: -

- Annual Report on the Commercial Strategy
- Draft Overview and Scrutiny Annual Report 2020/21
- Update on Police and Crime Panel Activity
- Corporate Complaints and Compliments Annual Report
- Leicester and Leicestershire Economic Growth Strategy
- Consultation and Engagement Principles & the Consultation Charter
- Corporate Asset Investment Fund Annual Report 2020/21
- East Midlands Shared Service Annual Update
- Leicester and Leicestershire Enterprise Partnership Update
- Strategic Planning and Growth Related Matters
- Engagement and the Outcome of Consultation on the Council's Strategic Plan 2018-2022
- Draft Communities Strategy Leicestershire
- Leicestershire Domestic Abuse Reduction Strategy 2022-2025
- Annual Delivery Report and Performance Compendium 202
- Partners Group private debt fund, and the JP Morgan Infrastructure investment fund
- Medium Term Financial Strategy and budget monitoring
- Report of the Scrutiny Task and Finish Group on the Council's Corporate Ways of Working Programme
- Corporate Ways of Working Programme Delivery of Financial Savings

The challenge of overview and scrutiny has always been crucial in supporting the delivery of high-quality services. This work has continued throughout 2021/22 with meetings reverting to being held at County Hall and webcast simultaneously.

## **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.

With regard to the promotion and maintenance of high standards of conduct by members and co-opted members within the County Council – decisions and minutes are available on the intranet. The Monitoring Officer submits an annual report to the Corporate Governance Committee on the operation of the Members' Code of Conduct and arrangements for dealing with complaints.

Since April 2021 there have been six complaints (relating to four members) received by the Monitoring Officer under the Members' Code of Conduct. These complaints were resolved as set out below:

- 1 complaint was withdrawn /not progressed by the complainant,
- 1 complaint was considered by the Member conduct panel,
- 4 complaints did not meet the threshold for further investigation as set out in the scope of the code of conduct

During 2021/22 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 2021/22 to support the above.

- Quarterly Risk Management Updates and the Risk Management Policy & Strategy
- Informing the External Audit Risk Assessment External Audit Plan (2020/21), Auditor's Annual Report, Statement of Accounts, Pension Fund Accounts and Annual Governance Statement 2020/21; Appointment of External Auditor
- Quarterly Treasury Management updates and Annual Treasury Management Report 2020/21. Treasury Management Strategy Statement and Annual Investment Strategy 2022/23
- Changes to the Contract Procedure Rules, Supplier Code of Conduct
- Internal Audit Service progress reports including status of High Importance recommendations; Annual Report, including opinion on the control environment, conformance to PSIAS and Quality Assurance Improvement Programme; Internal Audit Service Plan 2021/22
- Government driven developments in local (external) audit arrangements and update reports
- Revised Members' Code of Conduct and Protocol on Member/Officer Relations.
- Annual Reports:
  - o Annual Report on the Operation of the Members' Code of Conduct 2020/21
  - o Clinical Governance Annual Report
  - Local Government and Social Care Ombudsman Annual Review 2020/21 and Corporate Complaint Handling and Freedom of Information Requests
  - o Resilience and Business Continuity Update
  - o Regulation of Investigatory Powers Act 2000 (RIPA) and Investigatory Powers Act 2016

## The Chief Financial Officer (CFO)

The Director of Corporate Resources undertakes the statutory 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 Financial Management Code**

The CIPFA Financial Management Code translates the principles of good financial management into seven Financial Management Standards. These standards address the aspects of an authority's operations and activities that must function effectively if financial management is to be undertaken robustly and financial sustainability is to be achieved.

In January 2023 the Council completed a self-assessment of its compliance with the requirements of the FM code for 2021-22. The assessment showed that the County Council met the requirements of the Code with some small improvements required. The Internal Audit Service undertook a high level review of the self-assessment

against the Code, and a copy of the assessment was reported to the Corporate Governance Committee in January 2023.

## Local (External) Audit

The Council's local (external) auditors, Grant Thornton LLP, presented the findings from their planned audit work to 'those charged with governance' at the Corporate Governance Committee on 28 January 2022.

## The Auditor's Annual Report (AAR)

This was a new report that replaced the previous Annual Audit Letter and included a more detailed review of Value for Money (VfM) arrangements. This followed a revision to the Code of Audit Practice by the National Audit Office in 2020, which was effective for audits from the 2020/21 financial year. The report covered four areas. These were financial sustainability; governance; improving economy, efficiency, and effectiveness and the opinion on the financial statements. It also reported on the Council's response to the Covid-19 pandemic (see later).

### **Value for Money Arrangements**

There were a small number of 'improvement' recommendations defined as 'if implemented should improve the arrangements in place at the Council but are not a result of identifying significant weaknesses in the Council's arrangements'. However, overall the auditor's report was very positive and concluded that the Council has a good track record of sound financial management, understands, and manages the financial risks, has a clear and documented governance framework and a well-developed performance management framework.

## **Opinion on the Financial Statements**

The auditor gave an 'unqualified' opinion on the 2020/21 financial statements for the County Council and its Pension Fund on 13th December 2021. The draft accounts were prepared on time and included a "good set of supporting working papers.

### Annual Audit Plan for the 2021/22 Accounts

Informing the Audit Risk Assessment and Audit Plan was reported to Corporate Governance Committee at its meeting on 13 May 2022.

## **The Monitoring Officer**

The Director of Law & Governance undertakes the statutory role of Monitoring Officer (MO) for the Council. The MO has responsibility for:

- ensuring that decisions taken comply with all necessary statutory requirements and are lawful. Where in the opinion of the MO 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 MO is supported by the Deputy Monitoring Officer and officers within the Legal and Democratic Services Teams.

## **Senior Information Risk Owner**

The Assistant Director - Corporate Services undertakes the role of Senior Information Risk Owner (SIRO) for the Council. The SIRO takes overall ownership of the Council's approach to handling information risk. Sound governance is in place, with regular update and exception reports to the Corporate Management Team. The responsibilities of a SIRO include:

• owning the Council's policies, procedures and processes around information risk, ensuring they are

implemented consistently across the Council.

- ensuring compliance with all other policies and procedures relating to information and data.
- acting as a champion on information risk and report to Chief Officers on the effectiveness of risk management.
- leading and fostering a culture that values, protects and uses information for the success of the Council and benefit of our citizens.
- ensuring that information owners understand their roles.
- ensuring that the Council has a plan to monitor and improve information and data governance.
- maintaining expertise in Data Protection and other legislation that impact on Information and Data Governance; and
- owning the Council's information incident management framework

## **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 Management Committee which has overall strategic responsibility for ESPO. There is also a Finance and Audit Subcommittee in place. Internal audit is undertaken by the Council's Internal Audit & Assurance Service as part of the servicing agreement. Similar to the County Council, the HoIAS presents an annual report to the Management Committee. The annual report incorporates the annual internal audit opinion, which for 2021-22 was as follows:

Aside from the partial assurance rating given following the audit of cyber security arrangements, no other significant governance, risk management or internal control failings have come to the HoIAS' attention and therefore substantial assurance is given that ESPO's control environment overall has remained adequate and effective.

**ESPO Trading Ltd** ESPO's power to trade is restricted to a limited number of public bodies and this market is shrinking. The establishment of a trading company allows ESPO (Trading) to trade with other organisations which are in the spirit of public bodies but not described as such in the 1970 Act – e.g. Housing Associations, Charities and Voluntary Organisations. The Trading is governed under the Companies Act 2006, its Articles of Association and Shareholder Agreement.

**Eduzone** was a private limited company that supplies Early Years educational products and Early Years furniture to schools, nurseries and child minders. ESPO acquired the company following the necessary due diligence in 2018. Eduzone has now been incorporated into ESPO Trading Limited.

With the worst of the disruption to customers caused by the covid-19 pandemic now hopefully over and the end of mass school closures, ESPO has been able to return to business development activity targeting growth in a range of areas. However, supply chain issues remain and ESPO will need to manage the resulting availability and inflationary implications.

ESPO undertook a procurement exercise for its external auditors in February 2022. The HoIAS was part of the evaluation panel.

The **Corporate Asset Investment Fund (CAIF) Strategy** guides the Council's investments in assets not directly used for the delivery of its services, but which contribute to the outcomes of the Council's Strategic Plan. The Strategy requires reporting to various member bodies. Reporting on the financial performance is included in the budget monitoring reports on a quarterly basis. The CAIF Annual Report for 2020/21 was received by the Scrutiny Commission in September 2021. The CAIF Strategy for 2022/2026 was approved by County Council in February 2022.

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. The quarterly financial and performance reports include the performance of the LTS as part of the Corporate Resources Department and these reports are considered by various member bodies. The Annual Report on the Commercial Strategy 2020/21 was received by the Cabinet in June 2021. It reported that the closure of schools during

the pandemic significantly reduced the assumed income from Traded Services and required an adjustment to the MTFS, but also future plans for recovery and growth.

Trading conditions continue to be challenging, with inflationary pressures having a significant outlook on financial performance.

## Collaborative

## 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 2021-22 financial year, the Head of Internal Audit (HoIA) at Nottingham City Council concludes that a "**limited**" level of assurance can be given that internal control systems are operating effectively within EMSS and that no significant issues had been discovered. This opinion is influenced by the ongoing serious concerns that exist within the Payroll function and the fact that there have been limitations placed upon the completion of our work programme'

## Local Government Pension Scheme (LGPS) - Central Pool.

The LGPS Central pooled investment arrangements became operational on 1 April 2018. A range of collaborative governance vehicles has been established.

The Council is joint owner of LGPS Central Limited which manages the pooled assets of eight Midlands-based local government pension schemes, including Leicestershire. LGPS Central Limited is authorised and regulated by the Financial Conduct Authority as an asset manager and operator of alternative investment funds. It has combined assets of approximately £49bn which represents the assets of over 2,000 employing bodies which help to pay for the costs of pensions when they became payable.

The Company aims to use the combined buying power of its Partner Funds to reduce costs, improve investment returns and widen the range of available asset classes for investment for the benefit of local government pensioners, employees, and employers.

Member representatives of each of the funds sit on the LGPS Central Joint Committee which provides oversight of the delivery of the objectives of the pool, the delivery of client service, the delivery against the LGPS central business case and to deal with common investor issues. The joint committee provides assistance, guidance and recommendations to the individual councils, taking into consideration the conflicting demands and interests of the participants within the pool. The joint committee does not have delegated authority to make binding decisions on behalf of the participating councils.

An update on Internal Audit arrangements was provided to the Council's Local Pension Board in May 2022. This included a summary of work completed during 2021/2022 and what is planned for 2022/2023. The internal audit functions of the eight LGPS owners have formed an Internal Audit Working Group (IAWG) and agreed a four-year internal audit plan of work. The County Council's Internal Audit & Assurance Service concluded a review (initially started in 2020/2021) of LGPS Central Investments with an overall 'substantial' opinion. The 2021/22 audits were assigned to Nottinghamshire County Council (Investments), and Worcestershire County Council (Governance).

## **Active Together**

The Director of Public Health represents the Council and is Chair of the Active Together Board of non-executive directors. There are defined terms of reference which set out the governance arrangements and key tasks of the Board. Underneath the Board is a number of subgroups (drawn from the Board and co-opted others) to provide additional scrutiny of areas of the business.

One of those sub-groups in the 'business, oversight and audit' committee which oversees business planning, financial and risk reporting, and reports to the Board quarterly. The Head of Service in Public Health is a member of this committee.

### Leicester and Leicestershire Enterprise Partnership (LLEP)

The LLEP is a private company limited by guarantee (Company No: 11932434).

LEPs are non-statutory bodies and as such require an Accountable Body to manage funding from Government. Leicester City Council is the Accountable Body to the LLEP and hence takes the ultimate legal and financial responsibility for the LLEP's activities.

The Accountable Body, through its Section 151 Officer, is responsible for ensuring that statutory requirements are met in resource allocation decisions and that the public interest is protected. It provides financial and legal support and takes the ultimate legal and financial responsibility for the LLEP's activities.

Mr P Bedford CC represents Leicestershire County Council on the LLEP Board of Directors.

In June 2021 the LLEP held its AGM and produced its Annual Report 2020/2021 including its response to the Covid-19 pandemic. In September 2021 it reviewed its Local Assurance Framework to ensure compliance with a refreshed National Assurance Framework.

The Chief Executive left in March 2022 and the role is being held vacant pending greater clarity on the future role of the LLEP. At the end of March 2022 the Government issued guidance on integrating Local Enterprise Partnerships into local democratic institutions which it had introduced in its Levelling Up White Paper. A temporary Head of LLEP role has been created to head up the LLEP staff team. The Chair of the Board of Directors stepped down in April 2022, the vice-chair is acting Chair and a recruitment process for a new chair is currently underway.

The 2021/22 Annual Performance Review was assessed by the Department for Levelling Up, Housing and Communities (DLUHC), formerly the Ministry of Housing, Communities & Local Government (MHCLG), The DLUHC assessment found that the Government's expectation for governance and Strategic Impact had been met. However, concerns were identified in Delivery, essentially around delays to schemes allocated funding from the Getting Building Fund. These schemes continue to be delivered in 2022/23.

## Integrated Care Systems (ICS) & Integrated Care Partnership (ICP)

ICSs are partnerships that bring together NHS organisations, and upper tier local authorities across NHS footprint of Leicester, Leicestershire and Rutland (LLR).

The ICP is a statutory committee jointly formed between the Integrated Care Boatrd (ICB) and all upper-tier local authorities that fall within the ICS area. LCC membership includes the Lead member for Health and Wellbeing, the Director of Public Health, the Director of Adult Social Services and the Director of Children and Family Services.

The ICP is responsible for producing an integrated care strategy on how to meet the health and wellbeing needs of the population in the ICS area.

The ICB is also a statutory body and is a successor to the 3 Clinical Commissioning Groups (CCGs). The Director of Public Health represents LCC on the ICB, though in a professional capacity not as a representative of the Council as a decision-making body, in accordance with NHS requirements.

### Leicestershire Health and Wellbeing Board

Health and Wellbeing Board acts as a forum in which key leaders from the local health and care system, work together to improve the health and wellbeing of the local population and plan how to tackle inequalities in health. This is best achieved by a range of organisations working together and as a result, the Leicestershire Health and Wellbeing Board brings together key organisations: the ICB, District Representatives, NHS England,

University Hospitals of Leicester NHS Trust, Leicestershire Partnership NHS Trust, Leicestershire Police, Office of the Police and Crime Commissioner and Healthwatch to ensure patients and service users voices are heard. The Health and Wellbeing Board is chaired by the Council's cabinet lead for Health and the other Council representatives are:

- Lead Members for Adult Social Care & Children & Young People
- The Chief Executive
- The Directors of Public Health, Adults & Communities and Children & Family Services

The Health and Wellbeing Board leads and directs work to improve the health and wellbeing of the population of Leicestershire through the development of improved and integrated health and social care services by: -

- Identifying needs and priorities across Leicestershire (the Place), and publishing and refreshing the Leicestershire Joint Strategic Needs Assessment (JSNA) and Pharmaceutical Needs Assessment so that future commissioning/policy decisions and priorities are based on evidence.
- Preparing and publishing a Joint Health and Wellbeing Strategy and Plan on behalf of the County Council and its partner clinical commissioning group(s) so that work is done across the Place to meet the needs identified in the JSNA in a co-ordinated, planned and measurable way
- In conjunction with all partners, communicating and engaging with local people in how they can achieve the best possible quality of life and be supported to exercise choice and control over their personal health and wellbeing
- Approving the Better Care Fund (BCF) Plan including a pooled budget used to transform local services, so people are provided with better integrated care and support together with proposals for its implementation
- Having oversight of the use of relevant public sector resources to identify opportunities for the further integration of health and social care services within the Place.

The BCF is reported quarterly regionally and nationally via NHS England (NHSE) and the Local Government Association (LGA) via a nationally prescribed template which is approved quarterly by the Board, a process supported operationally by the Integration Executive. The annual BCF plan is also submitted via NHSE/LGA regionally and nationally and is subject to a prescribed national assurance process against a number of national conditions, metrics, and financial rules.

The 2021/22 BCF Policy Framework was published in August 2021 and updated in October 2021.

The annual submission for the 2021/22 financial year was approved by the Health and Wellbeing Board at its meeting on 25 November 2021, subsequent to its submission to NHS England which was done using the Chief Executive's delegated powers (following consultation with the Cabinet Lead Member for Health) in order to meet the deadline submission date of 16 November 2021. The completed year end BCF 2021-22 template, which demonstrates progress against integration priorities and BCF delivery, was approved for submission to NHS England by the Health and Wellbeing Board at its meeting on 26 May 2022. The work of the Health and Wellbeing Board at its also reported in the annual reports of Clinical Commissioning Groups (CCGS).

#### East Midlands Freeport

Freeports are a flagship Government programme that will play an important part in the UK's post-COVID economic recovery and contribute to realising the levelling up agenda, bringing jobs, investment, and prosperity to some of the most deprived communities, with targeted and effective support. The East Midlands Freeport (EMF) is the UK's only inland Freeport and features three main 'tax sites' straddling three East Midlands counties. The EMF brings together a mix of industries, businesses and other collaborating partners, combining public and private sector expertise.

Work to develop a Business Case began in 2021 and tax site designation was awarded by HM Treasury in March 2022. The Full Business Case was submitted to Government in mid-April 2022 and full designation expected in

March 2023. The Cabinet approved the County Council becoming a member of the newly incorporated Freeport Company, with the Leader as a nominated member to serve on the Board (now Mr Breckon), and to continue the role of lead authority and accountable body for the Freeport.

## East Midlands Development Company (DevCo)

The County Council is a Board member of the DevCo, a company limited by guarantee from April 2021. Its ambition is to be a locally led urban development corporation, for which there is provision in the Levelling Up and Regeneration Bill published in May 2022. The County Council is one of five member authorities / owners of the DevCo. Separately, the County Council is concerned to ensure that the DevCo's Members' Agreement and Grant Agreement are correctly followed. In that connection, exempt reports have been made to the Cabinet (May and September 2022). The County Council is currently waiting to hear from the DevCo about its proposition to Government and Government funding after 2022/23. The DevCo's future is also bound up with the outcome of the D2N2 devolution deal proposal.

## **Investment Zones (IZs)**

The County Council submitted an expression of interest (October 2022) in the establishment of four investment zones in Leicestershire. The submission was made with the support of the relevant district councils. IZs were mentioned in the Chancellor of the Exchequer's speech on 27th January 2023 and it remains to be seen if IZs in a different form will be relevant to Leicestershire and/or the Freeport.

## **Environmental & Waste Collaborations**

The County Council through the Environment and Transport Department is partner in a number of environment and waste collaborations and acts as Key Partner in

- Charnwood Forest Regional Park Board a partnership of local authorities, agencies, user groups and land management organisations, working to manage and promote the unique cultural and heritage features of the area;
- Charnwood Forest Landscape Partnership Scheme Steering Group an officer led group that oversees the delivery of the National Lottery Heritage Fund funded Landscape Partnership Scheme;
- River Soar and Grand Union Canal Partnership comprises of representatives of public authorities, statutory bodies and charitable and voluntary organisations which work together to promote long term regeneration and sustainability of the River Soar and Grand Union Canal corridor.

### **Enhanced Bus Partnership**

This is a partnership between the County Council and the bus operators and is enabled by the 2017 Bus Services Act and Transport Act 2000, so has a legal status, but not statutory. Local authorities who wanted to bid for funding had to have one set up therefore every top tier authority has one (unless they have bus franchising).

## 7. The Council's Continuing Response to Covid-19

Throughout 2021/2022, the Council continued to support its staff and the people and businesses of Leicestershire towards planning for recovery from the global pandemic declared in connection with the COVID-19 virus.

The Council worked closely with the Local Resilience Forum, Leicester City Council, Rutland Council, the district councils, the Police, the NHS, Public Health England and others to respond to and support the Government's roadmap for easing restrictions, the vaccination programme, testing, and the planning for recovery. Many changes had been made to the Council's services as part of responding to the Covid-19 pandemic and so work began to identify changes made that required some form of post event engagement or consultation.

In the Spring plans were developed and put in place for the Council's own organisational recovery taking account of the Government's roadmap and the local situation regarding Covid19 cases. The Council's Crisis Management

Group and Resilience Planning Group continued to meet regularly to actively manage the Council's response and recovery priorities. As a result of the pandemic, there had been huge and very quick shifts in organisational culture, with many staff being required to work from home for the first time due to the national and local lockdowns imposed by the Government. This led to a wholescale rethink of how departments and teams needed to operate moving forward, retaining a higher degree of flexibility, and more remote working than previously thought possible. The Workplace Programme (October 2019) was subsequently reshaped into the "Ways of Working Programme" taking account of the changes made and the experience gained during this period. However, given the scale of the Programme and its implications for how the Council would operate in the future, in September 2021 the Scrutiny Commissioners appointed an informal Scrutiny Task and Finish Group to provide some outside challenge to how it would be delivered to ensure the identified benefits of the Programme were realised and to consider the potential impacts, risks and barriers to its success. In the Task and Finish Group's report to the Scrutiny Commission on 9

March 2022, benefits to both the County Council and staff were identified in the Ways of Working Programme business case, including for the Council a potential reduction in absence. The Scrutiny Commission has referred recommended actions to the Cabinet Lead Member for Ways of Working and the Director of Corporate Resources for consideration.

By the early Summer, committees (and full Council) were being held in person albeit with reduced numbers and more space afforded for those attending. Some meetings were also filmed for live or subsequent broadcast. By the Autumn the Council was reporting that risks had stabilised, if not actually reduced. The Council had not had supplier issues or large scale staff absences due to the success of the vaccination roll out. Nevertheless, the level of risk was continually monitored by the Resilience Planning Group (RPG) and Corporate Resources to assess risk to staff and customers and reported to the Council's Crisis Management Group (CMG). However, it was effectively being managed as business as usual by Departments due to the longevity of the incident and the 'new normal' that Covid had become. The relaxation of restrictions and any possible impact on staff from new and hybrid ways of working was closely monitored for local effects as well as any changes to guidance from Government.

However, over the Winter, new variants had elevated sickness and isolation absences, so services were providing regular updates on staffing levels and addressing consequential matters through business continuity plans with regular review at RPG meetings. The Council provided regular service updates on its website and two waste sites were closed for a while due to staffing and driver shortages, some home to school and special educational needs transport services were unavailable and staff absence in the customer service centre had led to delays in answering queries. Through the LLR Strategic Coordinating Group the impact of new variants was being assessed and where appropriate multi-agency collaboration occurred to order to identify mitigating actions. The Council had to plan for, manage and oversee implementing the regulations for mandatory vaccination for the wider frontline health and social care sector workers.

Within its Annual Auditor Report presented to Corporate Governance Committee on 28 January 2022, the Council's external auditor Grant Thornton reported that it had undertaken a review of the Council's response to the Covid-19 pandemic and how the Council's arrangements were adapted to respond to the new risks it was facing. The report covered the key actions taken by the Council and found no issues with the arrangements that were put into place. The auditor concluded that "in our view effective governance arrangements, an understanding of the financial risks, and clear adoption of a multi-agency approach allowed Leicestershire County Council to monitor the strategic and operational impact of Covid-19 on services, businesses and residents and these arrangements have enabled timely and responsive actions to be taken".

In early March the Council begun to plan and prepare in case it was either selected to contribute to the public inquiry into the Covid-19 pandemic or whether it may wish to volunteer material.

By the end of March, both the Council's Crisis Management Group and the LLR Strategic Coordinating Group had been stood down following the ending of restrictions by the Government, but both could be stood back up at short notice if the RPG monitoring highlighted issues of substantial concern.

## 8. Action Taken on Governance Issues Reported in the 2020/21 AGS

The Council has defined a 'significant governance issue' as one that is intended to reflect something that has happened in the year or which is currently being experienced. Progress that has been made in dealing with the governance issues that were identified in the 2020/21 final AGS are detailed below:

Issue /Area for Improvement (AGS) 2020/21	Lead Officer and Date	Progress during 2021/22
The Independent Inquiry into Child Sexual Abuse (IICSA)The Inquiry report was eventually released on 19 October 2021. It contained a section on the County 	Chief Executive and the Corporate Management Team December 2020	No further action on the Inquiry was required.
County Council publicly acknowledged and apologised for historic failings. Adult Social Care budget overspend A net overspend of £13.5m was forecast across adult social care. The Council published a media release to manage the publication of a budget update report, and it generated national and local coverage. An action plan to manage the overspend was	Director of Adults & Communities	The overspend was due to increased demand relating to COVID. An action plan was implemented by departmental management to reduce costs and increased focus with the NHS on the hospital discharge process has reduced this to £3m. An ongoing focus will be required during 2022/23
developed which was to be overseen by departmental management <b>Capital programme reassessment</b> There was an upwards reassessment of the cost of delivering major infrastructure capital schemes, in particular the Melton distributor road schemes. Estimates had been revised across both schemes of £133m, which was £10.6m above previous estimates. The overall funding shortfall of the council's capital programme was similarly reported in the media.	Director of Corporate Resources	The pressures on the capital programme continue to grow. Increased demand for forward funding linked to districts' local plan delivery coupled with skills shortage and high levels of inflation in the construction industry being key drivers. A series of mitigations has been identified, and shared at an all-member briefing on the 6 April, which will help to reduce the impact of these risks. Mitigations cover approach to project governance and management, consistency in scheme risk management, increased focus on whole life costs within financial monitoring, continued constructive dialogue with districts and central government and re-assessment of appropriate procurement routes for scheme delivery. Further reports on monitoring

Issue /Area for Improvement (AGS) 2020/21	Lead Officer and Date	Progress during 2021/22
		considered by Cabinet throughout the year with the latest being on 16 December 2022.

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## 9. Significant Governance Issues Arising During 2021/22

This Annual Governance Statement (AGS) identifies that the Council has effective arrangements in place, but that its officers recognise the need to continuously review, adapt and develop governance arrangements to meet the changing needs of the organisation. Whilst the Council has identified areas to be developed (Annex), it is important to recognise that there are four significant matters set out in the table below.

Significant Governance Issue 2021/22	Lead Officer and Date
SEN Budget Deficit	
The High Needs Block of the Dedicated Schools Grant remains under significant pressure with an in year deficit of £10.9m for 2022/23 and a cumulative deficit of £39.7m which is forecast to increase significantly in future years. This is a major pressure for the County Council, 68 (45%) of local authorities are now working with the DfE within their DSG intervention programmes. Leicestershire is one of 55 authorities within the Department for Education's Delivering Better Value in SEND programme. Whilst some grant funding will be made available this will support the programme of change and not address the deficit. The Delivering Better Value in SEND programme is the second of three levels of support established by the DfE for authorities with high needs deficits of concern. The highest level of support is through the 'safety valve' programme for authorities with the highest levels of deficit. Increase in demand is also resulting in higher expenditure on the SEND home to school transport budget. The Authority is also experiencing an increasing number of appeals and complaints. The Authority has entered into a Strategic Partner contract with Newton Europe to deliver the Transforming SEND and Inclusion in Leicestershire (TSIL) programme providing expertise on SEND issues.	
<ul> <li>Firs Farm – environmental damage and rectification</li> <li>Firs Farm, Husbands Bosworth is owned by the Council as part of the County Farms Estate. During the winter of 2018 the Council's Trading Standards Service became aware of some irregularities in animal movement monitoring relating to the farm and a reported issue of illegal disposal of livestock carcasses. Subsequent inspections and monitoring suggested that there were other possible issues. In December 2019 the Tenant and the Council entered into a legal contract with the aim of the Tenant rectifying the illegal carcass disposal issue and several other matters within a strict timeframe.</li> <li>A follow-up inspection in January 2020 confirmed that no action had been taken in line with the legal contract. The Tenant absconded and it became apparent that criminal activity relating to illegal waste disposal was occurring on the farm. Due to legal complications relating to the status of the Tenant, the Council was unable to regain possession of the farm until May 2020. During 2020 and 2021 the Council with the support of consultants has been engaged with the Environment Agency and Harborough District Council in determining the extent and types of waste buried on the farm.</li> </ul>	Director of Corporate Resources Review April 2023

A remediation strategy for the farm is now agreed with the Environment Agency. The Council has tendered for the removal and proper disposal of the waste on the farm and reinstatement of the farmland and are in the process of marking tenders with a view to awarding the contract in January 2023 with the aim to start on site by April 2023 or before should the successful tenderer be able to. The consultants original estimate of costs was £2.4m and the tenders received are broadly in line with this but the successful tenderer may cost slightly more once they have all been marked. The Council's insurance does not cover the type of environmental or illegal waste disposal undertaken on the farm.	
Early Years Budget Deficit	
A £4.2m deficit on the Early Years' budget was identified at the end of the 2021/22 financial year. Further analysis noted a number of providers being missed off the Council's annual Early Years census (from which the DfE funding to the Council is derived) since 2020. Further errors were made in the Summer 2021 data return to DfE, where required adjustments to hours reported were not made leading to a reduced grant payment to the Council. This was an exceptional data return in addition to the annual census due to the pandemic. The census errors were compounded by the cost of making provider support payments during the pandemic. The errors were not identified earlier due to incorrect assumptions used when aligning financial with academic years and provider payments with retrospective grant claims.	Services
Local Government & Social Care Ombudsman (LGSCO) report – Social Care Assessments	Director of Adults & Communities
In September 2022 the Local Government and Social Care Ombudsman (LGSCO) issued a report following its investigation into a complaint that the Council had failed to properly undertake a social care assessment and provide support for eligible care needs.	March 2023
The Council are in the process of addressing the five recommendations made in the report which include :	
• Making a financial payment of £10,000 to the complainant in recognition of lost services and time and distress caused to the complainant in pursuing the complaint. A compensatory payment was made on 24th November 22;	
<ul> <li>Review processes to ensure that preparing care and support plans for residents with eligible needs is an integral part of the assessment process, that all staff are aware of this and that there are specific timescales for this part of the process. Revised training and induction processes have been put in place on support planning;</li> </ul>	
<ul> <li>Review all care needs assessments carried out over a 13 month period (1 March 2020 to 31 March 2021) to identify the ones where no support was provisioned despite eligible needs and provide a summary of findings to the Ombudsman which are to include actions taken to remedy any injustice caused through any identified failure to provide support.</li> </ul>	
The Council is currently working on these recommendations. Following a review of over 3,500 assessments carried out within the timeframe required, detailed analysis is being followed up on 5 cases. Letters have been issued in all 5 cases	

with responses awaited.

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The Council has identified areas to be developed which are reported in the Annex to the AGS.

The Code of Practice on Local Authority Accounting in the UK 2021/22, requires that significant events or developments relating to the governance system that occurred between the Balance Sheet date, (31 March), and the date on which the Statement of Accounts will be signed by the responsible financial officer, are reported. The draft AGS was updated in line with the Code of Practice.

## **10. Future Challenges**

Significant challenges faced by the Council such as the continuing economic and health and wellbeing impacts of covid-19, continuing funding shortfalls, driving further Health and Social Care integration, social care reform etc are detailed within the Corporate Risk Register, which is regularly reviewed by the Corporate Management Team and presented to the Corporate Governance Committee (the 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. The most recent update of the Corporate Risk Register was received by the Committee at its meeting on 27 January 2023.

Additional challenges continue to emerge, and key areas in particular are:

## **Financial Sustainability**

There is a continued need for additional Local Government funding, that the spending review in 2021 did not adequately address. Service demand pressures continue to be felt in social care and SEND, which are only partially met by Council Tax increases and are driving the requirement for savings. The level of growth has taken a step higher following the coronavirus pandemic and the Council is dependent upon continued additional Health funding to manage.

National reforms are being developed for SEN and social care; the information provided to date is raising concerns that there is a real risk of a material negative financial impact.

All services are facing unprecedented inflationary pressure reflecting the wider economy. The council's finances are particularly sensitive to increases in the National Living Wage, which is expected to be driven significantly higher by greater wage growth in the wider economy. The impact on the County Council's budget will be profound. The budget gap in 2023/24 is expected to grow from a manageable £8m at the time the MTFS was approved in February to c£20m based on current inflation projections. Over the life of the MTFS the gap could increase from £40m to over £70m unless mitigation actions are taken. These estimates will become quickly out of date if the trend of worsening economic news does not stop.

## **Covid-19 ongoing risks**

The most recent data on both people testing positive and being admitted to hospitals in England show a considerable rise proving that the coronavirus is still affecting daily lives. The threat of new strains in the short, medium, and long term, remans. How 'bad' they would be and what the impact on the Council (both in terms of impact and the requirement to play a part in response) is unknown – but clearly still an important part of the workload of Public Health

## **Covid-19 Public Inquiry**

In May 2021, the Prime Minister announced that a public inquiry into the Covid-19 pandemic would be established. In March 2022, the appointed Chair of the Inquiry (Baroness Hallett) began a public consultation on the draft terms of reference. This lasted until April and in May she wrote to the Prime Minister to explain that she had amended the Terms of Reference to reflect the consultation responses. It is not clear how or which local authorities will be selected to contribute to the Inquiry or whether the County Council may wish to volunteer material, but if there is to be involvement then the impact could be significant. In preparation officers have begun an exercise to identify documents, records and decisions and a implement a process to ensure that any related information is preserved and readily available.

## Homes for Ukraine Scheme & assistance with asylum seekers

Given the ongoing humanitarian crisis in Ukraine, the Council will continue to incur significant impact. It will be required to continue to take lead roles in supporting and administering the Scheme, which will involve continuing to chair strategic and operational groups co-ordinating the County Council with the districts and Rutland Council. Operational support to the Scheme will be continually monitored and changes applied following any further Government guidance. There are a number of forthcoming challenges: -

- Homelessness as sponsor/guest relationships breakdown. The Council has a rematching process, but this may not be appropriate in every case.
- Government guidance stipulates that sponsors will host a guest from 6 months to a year. The Council is forward planning for this as there will be large numbers of Ukrainian guests looking for accommodation; again District homelessness duties will be activated.
- As people settle in the County, complex cases are beginning to present, the Council's social care offer will be stretched further
- Education (including SEN) is a huge issue; the vast majority of Ukrainian guests are women and children.

On 22 June, the Government announced that the Homes for Ukraine scheme will be extended to children and minors under the age of 18 whose parents have a trusted relationship with an adult who will be the sponsor in the UK. Unaccompanied minors under the age of 18 will be able to apply for a visa to come to the UK under the sponsorship scheme if they have proof of parental consent. This particular group of Ukrainian guests will require significant support from the Council either under its looked after children or private fostering arrangements and further stringent safeguarding and accommodation checks will be required. Additional costs are still to be worked out. This will potentially be a resource pressure for the Council.

The Home Office is currently undertaking an informal consultation exercise on a full asylum dispersal model under which all local authority areas will be expected to accommodate asylum seekers. The Government's accommodation providers will be seeking to procure housing across the country. This is to reduce the use and costs of hotel accommodation and, to ensure that there is not over reliance on existing local authority dispersal areas. Only 47% of all local authorities currently participate in the existing dispersal scheme. The Government is encouraging local authorities to work collaboratively to adopt a regional approach. Funding will be made available to local authorities housing asylum seekers in their areas.

It is therefore likely that the number of asylum seekers arriving in the County will increase over a period of time which will have an impact on the demand for school places, specialist mental health services, and social care support (adults, children, and SEND). Community cohesion challenges may also be expected to arise. Further details will be provided by government once the consultation exercise ends on 1st July 2022.

## **Norfolk Ruling**

In December 2020, the High Court ruled that Norfolk County Council had breached the rights of a woman by discriminating against her when it changed its care charging policy. The Council is undertaking a review of its charging policy during 2022/23 and will take account of the implications of the High Court decision as part of that process including the public sector equality duty and legal advice on the case. Any subsequent changes to the charging policy as a result of the decision will have an impact on income received towards the cost of care and support services.

## Mandating audit committees and independent members

The Government is intending to mandate audit committees and also make it a statutory requirement for councils in England to have at least one independent member on the audit committee as part of local (external) audit reforms. These decisions are part of the Government's detailed response to 'The Independent review into the oversight of local audit and the transparency of local authority financial reporting', also known as The Redmond Review.

The Terms of Reference (ToR) of the Corporate Governance Committee currently cover the requirements of the audit committee for Leicestershire County Council but it is likely that the pending legislation/statutory instrument will set out the requirements for that committee/function in future and the Committee's ToR will have to be changed to accommodate anything in the regulations and the change in membership by the inclusion of independent co-opted members.

The Council's approach to recruiting a co-opted independent member is being planned.

## **Recruitment and retention**

The current workforce shortage is becoming acute in a number of areas, and with the ongoing impact of the cost of living crisis, is likely to get worse. Staffing costs are likely to rise, through having to put market premia / retention payments in place to counter what's happening in the wider market, and we are only at the early stages of this year's national pay negotiations, whilst costs continue to rise sharply. Should the Council be unable to recruit and/or retain in key areas, it faces the real risk of being unable to deliver some of its services in the future. As well as short-term solutions, as an employer, the Council has to develop long term initiatives and also to market itself as an employer to best effect.

## **11. Certification**

The Council has been hugely impacted by the coronavirus pandemic. Nevertheless, despite the challenges, the Council has maintained consistent essential services for residents, whilst adapting to provide alternative virtual services wherever possible. The Council's strong collaborative approach has been effective at achieving a unified response, working with key partners in the NHS, police and voluntary and community sectors.

The Council's Strategic Plan 2022-26 and Medium Term Strategy will continue to be reviewed and updated to assess the medium-term impacts of the pandemic on the Council's financial position.

The Council is satisfied that appropriate governance arrangements are in place and 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 in these challenging times. 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

## <u>Annex</u>

#### AREAS FOR FURTHER DEVELOPMENT IN 2022-23

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The Corporate and Departmental AGS self-assessments contained a set of conformance statements under each core principle and related sub-principles as outlined in the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016). Each conformance statement required a corresponding score of 1, 2 or 3 to be recorded, based on the criteria below:

Score	Definition	Description	Evidence (all inclusive)
1	Good	Conformance against most 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
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

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Examples of key actions is summarised in the table below.

Note: some actions are not included in the table as they are already reported through the Corporate Risk Register (CRR).

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 in 2022/23 (Ongoing and New)
Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law		<ul> <li>It is planned to relaunch the Leadership Management Framework, later on this year (2022) which has a key focus on importance of the Council's Values in leadership and management and the expectation placed on employees to adopt these in their way of working. In addition, these are also integral in all team building and customer service learning and development programmes.</li> <li>Direct recruitment of Complaints Investigator</li> <li>Corporate process around mandatory training to be developed by HR</li> <li>Finalisation of the rewrite of the processes and procedures for Procurement and Commissioning are being extended to incorporate Purchase to Pay and will be piloted in Q2 2022 to be rolled out in Q3 2022.</li> <li>Ongoing work on the establishment of Ethical Charters covering particular workforce practices are being rolled out across our procurements.</li> </ul>
<b>Principle B:</b> Ensuring openness and comprehensive stakeholder engagement		<ul> <li>Covid – 19 has had an impact on the department progressing work on a directory of stakeholders and this is still outstanding. It does form part of the work programme for 2022-23.</li> <li>Develop a Parish Engagement Strategy - strategy and associated action plan to be developed during 2022 (Special Projects Team).</li> <li>Work to further develop care pathway use of community assets to support people.</li> </ul>
<b>Principle C.</b> Defining outcomes in terms of sustainable economic, social, and environmental benefit		<ul> <li>Continuing to develop the approach to multi-year monitoring of large and complex capital schemes to ensure medium term implications brought out, including risks and mitigations.</li> <li>Work will continue to effectively integrate consideration of environmental impacts into planning policy and decision making</li> <li>A&amp;C is in the process of establishing an engagement Hub. The hub is a virtual repository of previous consultations methodology is used best practice and findings to help improve the quality of engagement across the Department. There will also be an engagement coordination group established which will coordinate consultation across the Department an ensure effective linkages to the corporate engagement function.</li> </ul>
<b>Principle D.</b> Determining the interventions necessary to optimise the achievement of the intended outcomes		<ul> <li>Public Health has a robust planning cycle which is monitored by the Head of Service. However, due to COVID-19 these were not detailed in the QAIF dashboard. This workstream is planned for reintroduction in 2022-23</li> <li>Defining Children's- Phase 2 - 22/23 - Strategic Lead Transformation and Change</li> <li>Social Value is to be workshopped with key stakeholders from all areas of the Council for a fresh approach to Social Value in line with the Councils approach to sustainable procurement. The workshops will result in a refreshed approach, guidance, support, policy and procedure for Social Value which will be implemented by December 2022.</li> </ul>

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<b>Principle E.</b> Developing the entity's capacity including the capability of its leadership and the individuals within it	<ul> <li>Cost of care exercise to be submitted to Government by October 2022</li> <li>Update and review of current financial handbook</li> </ul>
<b>Principle F.</b> Managing risks and performance through robust internal control and strong public financial management	<ul> <li>Reviewing existing processes in line with implementing digital solutions – 22/23 – IM&amp;T Business Manager</li> <li>With the arrival of new software systems into CFS during this year, audit processes need to be embedded</li> <li>Implement 'Areas for improvement' from the 2021-22 self-assessment against the CIPFA Financial Management Code</li> <li>Implement Capital Programme Improvement Project to strengthen process and financial management across the highways capital programme</li> </ul>
<b>Principle G.</b> Implementing good practices in transparency reporting and audit to deliver effective accountability	<ul> <li>An Action Plan to take forward recommendations from the A&amp;C February 2022 Peer review is being developed and will be implemented during 2022.</li> <li>Further work to refine performance reporting for priority health and care outcomes linked to the new ICS governance arrangements.</li> <li>Continue to evaluate the extent to which Redmond recommendations, CfGS governance risk framework and CIPFA FM Code have been implemented.</li> <li>Arrange for an External Quality Assessment of the Internal Audit Service</li> <li>Plan for mandatory audit committees and independent members.</li> </ul>

## **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 EXPENDITURE**

Payments for the acquisition, construction, enhancement or replacement of assets such as land, buildings, roads, and computer equipment.

#### **CAPITAL RECEIPTS**

Income from the sale of capital assets e.g. sale of equipment. 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 AND EXPENDITURE STATEMENT**

A statement which details the total income received and expenditure incurred by the Council during a year in line with IFRS reporting as required by the Code.

#### 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.

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#### **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

A statement of common accounting practices, devised by the International Accounting Standards Board, which form the basis for the treatment and recording of transactions as applicable to the majority of large organisations, in both the private and public sectors.

#### **GENERAL FUND**

The main revenue fund (reserve) 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 non-current 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 with terms over 1 year, raised to finance capital spending.

#### MINIMUM REVENUE PROVISION

The Authority has a duty to set aside a prudent amount of money as a provision for financing 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 unusable 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

Assets which are not readily convertible into 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 receives from billing authorities (e.g. council tax from the collection funds of the district councils or Parish Councils).

#### PROVISION

An amount set aside for any liabilities or losses of uncertain timing.

#### PUBLIC WORKS LOAN BOARD (PWLB)

A government body from which local authorities may obtain long term loans, usually at preferential 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

Includes fees and interests earned from providing services and selling goods. Also includes Government grants to local authorities.

#### **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.



Copies of this Statement of Accounts are available from:

Technical Accounting Team, Corporate Resources Department, Leicestershire County Council, County Hall, Glenfield, Leicester, LE3 8RB

Tel: 0116 305 7627

The accounts can also be viewed at www.leicestershire.gov.uk

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APPENDIX B



## The Audit Findings for Leicestershire County Council

## Year ended 31 March 2022

Leicestershire County Council March 2023



## Contents

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( 4, <b>(2, 3</b> , 1 <sup>2</sup> )
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Corporate Governance Committee.

M C Stocks

Name : Mark Stocks For Grant Thornton UK LLP Date :

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## **1. Headlines**

This table summarises the key findings and other matters arising from the statutory audit of Leicestershire County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2022 for those charged with governance.

#### Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information • published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during July 2022 to January 2023. Our findings are summarised on pages 6 to 28.

We identified a number of significant issues in our 2021/22 audit which have led to the need for adjustments to the draft financial statements. These include two material misstatements and one non material misstatements in the financial statements. The impact of these is:

- Write-off of academy land valuation £211m reduction in asset values at 31 March 2022, and the need for a Prior Period Adjustment.
- Incorrect netting off of debtor and creditor balances £43m increase in debtor and creditors
- Incorrect valuation of school buildings £5.3m increase in asset values at 31 March 2022.

Further issues identified for which adjustments have not been made to the financial statements are:

- Understatement of pension assets at 31 March 2022 (due to timing differences in valuation)– resulting in the overstatement of the pension liability by £2.3m
- Potential understatement of the debtors credit loss allowance, resulting in a projected estimated overstatement of debtors by £2.0m
- Derecognition of academy schools derecognised in the incorrect financial year £8.4m overstatement of asset values at 31 March 2021. These schools were derecognised in 2021/22 but should have been in the prior year, resulting in an understatement to the loss on disposal recorded in 2020/21 and an overstatement of loss on disposal in 2021/21.
- Movement on valuations on assets not revalued in 2021/22 resulting in an estimated understatement of asset values of £2.8m.
- Potential overstatements of debtors balances at 31 March 2022 due to subsequent issue of credit notes extrapolated figure of £1.0m.

We note that the adjustment to credit loss allowances and the extrapolated error re income would reduce the useable reserves available to the Council.

Audit adjustments are detailed in Appendix C.

In addition to the above issues, we have identified a number of control and process points which are set out on pages 16 to 21.

We have raised recommendations for management as a result of our audit work at Appendix A. Our follow up of recommendations from the prior year's audit are detailed at Appendix B.

## 1. Headlines (continued)

#### **Financial Statements (continued)**

Our work is substantially complete subject to the following outstanding matters;

- Completion of property, plant and equipment valuations audit
- Completion of final disclosure check
- Clearance of Engagement Lead review points
- Receipt of management representation letter; and
- Review of the final set of financial statements
- Final Manager and Engagement Lead review of the audit file and completion of remaining audit documentation.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Subject to clearance of the above outstanding points, our anticipated audit report opinion will be unmodified.

Value for Money (VFM) arrangements		
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.	We have completed our VFM work, which is summarised on pages 29-30 and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.	
Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:		
- Improving economy, efficiency and effectiveness;		
- Financial sustainability; and		
- Governance		

## 1. Headlines (continued)

#### **Statutory duties**

Significant Matters	We did not encounter any significant difficulties or identify any other significant matters arising during our audit.
<ul> <li>to certify the closure of the audit.</li> </ul>	
additional powers and duties ascribed to us under the Act; and	
<ul><li>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</li><li>report to you if we have applied any of the</li></ul>	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.
The Legal Audit and Associated it what 2014 ('the Ast')	We have not everylized any of our additional statutory newsre or dution

## **2. Financial Statements**

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Corporate Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you in May 2022, to reflect any changes to our risk assessment.

### Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Corporate Governance Committee meeting on 16 March 2023. These outstanding items include:

- Completion of property, plant and equipment valuations audit
- Completion of final disclosure check
- Clearance of Engagement Lead review points
- receipt of management representation letter; and
- review of the final set of financial statements
- final Manager and Engagement Lead review of the audit file and completion of remaining audit documentation.
- file and completion of remaining audit documentation.

#### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

## **2. Financial Statements**



#### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan in April 2022. We detail in the table our determination of materiality for Leicestershire County Council.

	Council Amount (£000)	Qualitative factors considered
Materiality for the financial statements	14,000	-
Performance materiality	9,800	-
Trivial matters	700	-

Materiality for senior officers remuneration and related party transactions n/a Impact of any errors was considered on a case by case basis.



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# 2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls	We have:
<ul> <li>Management override of controls</li> <li>Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.</li> <li>The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.</li> <li>We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</li> </ul>	<ul> <li>evaluated the design effectiveness of management controls over both automated and manually posted journals</li> <li>analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>used the work of our IT auditors to identify further transactions posted by users where there could be a risk of inappropriate postings</li> <li>gained an understanding of the accounting estimates and critical judgement applied and made by management and</li> </ul>
	effect. We have not identified any evidence of management override of control with regard to estimates, unusual transactions, or misstatement.
	We have raised a number of observations relating to the journals process as set out on page 17.



#### **Risks identified in our Audit Plan**

#### Commentary

#### Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of Leicestershire County Council, we have determined that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because:

- · There is little incentive to manipulate revenue recognition
- Opportunities to manipulate revenue recognition are very limited; and
- The culture and ethical frameworks of public sector bodies, including Leicestershire County Council, mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for the Council.

There were no changes to our risk assessment as reported in the audit plan.

Notwithstanding that we have rebutted this risk, we still identified an elevated risk assessment for the Council's revenue streams, as they are material. We undertook detailed audit work in response to this elevated risk which included:

#### Accounting policies and systems

- evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code
- updated our understanding of the Council's business processes associated with accounting for income

#### Fees, charges and other service income

Agreed on a sample basis, income and year end receivables from other income to invoices and cash payment
or other supporting evidence.

#### Taxation and non-specific grant income

- Income for national non-domestic rates and council tax is predicable and therefore we conducted substantive
   analytical procedures
- For other grants we sample tested items back to supporting information and subsequent receipt, considering accounting treatment where appropriate.

We also undertook tests to address the risk that income has been understated, by not being recognised in the current financial year.

#### We identified the following issues:

The Council has applied the same approach to the calculation of the credit loss allowance applied to debtor balances for a number of years and has not reviewed the basis of this calculation to ensure that it is based on current, reliable data on the level of credit losses expected. We requested evidence to support the validity of the percentages used such as evidence on actual levels of debt write offs/recoverability but the Council has been unable to provide this level of evidence to support the reasonableness of the percentages used. As set out on page 37 we have reviewed the reasonableness of the figures used and recorded a potential understatement of the credit loss allowance figure of £2.0m. This has been recorded as an unadjusted misstatement in appendix c.

Testing of year end debtor balances identified debtors raised prior to year end which were cancelled by credit notes shortly after the year end. The value of these items in our sample was £87k, which when extrapolated over the full debtors population suggests a potential overstatement of debtors by £1.0m. This has been recorded as an unadjusted misstatement in appendix c.

#### **Risks identified in our Audit Plan**

#### Commentary

Risk of fraud related to expenditure recognition - PAF Practice Note 10 There were no changes to our risk assessment as reported in the audit plan.

In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.

Having considered the nature of the expenditure streams of Leicestershire County Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition.

Notwithstanding that we have rebutted this risk, we still identified an elevated risk assessment for the Council's expenditure streams, as they are material. We undertook detailed audit work in response to this elevated risk which included:

#### <u>Expenditure</u>

- updating our understanding of the Council's business processes associated with accounting for expenditure
- agreeing, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence

Having considered the nature of the expenditure streams of Leicestershire We also undertook tests to address the risk that expenditure has been overstated, by not being recognised in the County Council, and on the same basis as that set out above for revenue, current financial year.

No issues arose which we consider we need to bring to the attention of the Corporate Governance Committee.

#### **Risks identified in our Audit Plan**

#### Commentary

#### Valuation of land and buildings

The Council revalues its land and buildings on a rolling, fiveyearly basis.

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.

#### Land and Buildings

Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets.

For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset.

We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings is a significant risk, which is one of the most significant assessed risks of material misstatement. The Council used both an internal valuer and external valuers (Bruton Knowles) for its asset valuations during 2021/22. The effective date of the valuation undertaken was 31 October 2021.

We undertook the following audit procedures;

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- · evaluated the competence, capabilities and objectivity of the valuation experts used
- wrote to the Council's valuer to confirm the basis on which the valuations were carried out
- engaged our own valuation specialists to review the terms of engagement and valuation approach for the Council's internal valuation team
- challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding
- tested the full valuation at 1 October 2021 to understand the information and assumptions used in arriving at valuations, include review of detailed valuation calculations for a sample of assets
- reviewed management's assessment of the potential impact of movements in valuations between 1 October 2021 and 31 March 2022
- ensured that key data used as the basis for valuations (such as BCIS build cost information) was supported by external evidence
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register and that any revaluation movement had been correctly accounted for in the financial statements
- used valuation indices to review valuation movements for assets not revalued in 2021/22 to assess whether there was the potential for a material difference to have arisen between the carrying value of assets and current value.

Details of our findings are set out on the following pages.

#### **Risks identified in our Audit Plan**

#### Commentary

#### Valuation of land and buildings (continued)

The Council revalues its land and buildings on a rolling, fiveyearly basis.

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.

#### Land and Buildings

Within the valuation of the Council's Other Land and Buildings, • the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets.

For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset.

We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings is a significant risk, which is one of the most significant assessed risks of material misstatement. We identified the following issues:

#### Valuation of land leased to academy schools

- The Council holds land which is leased to academy schools under 125 year leases, as is standard practice when schools convert from local authority control to academy status.
- Historically the Council has continued to value this land at current market value. Following review and discussion during
  the 2021/22 audit process with Council officers, the Council's internal valuer and both the Council's and Grant Thornton's
  external expert valuers, we have agreed that the valuation of land leased to academies at full market value is not
  appropriate. The terms of the long term lease agreements in place are such that the Council does not retain rights to use
  the assets and this should be reflected in the valuation applied.
- We have agreed that the appropriate approach to be followed to the valuation of this land is to treat each land asset as having a "demiminis" value of £1. As a result an adjustment has been made to the valuation of land as at 31 March 2022, and corresponding prior period adjustments made to restate comparative figures on the same basis.
  - 31/3/20 £m
     31/3/21 £m
     31/3/22 £m

     Write off of academy school land value
     196.9
     190.8
     211.0

The value of the adjustments made to land values in the financial statements are:

#### Timing of derecognition of academy schools

- When schools convert to academy status the Council derecognises the building previously held in its financial statements.
- Testing of school conversions during 2021/22 identified instances of delay between the conversion of the school to academy status and the point at which this derecognition is recognised in the Council's financial statements which has led to conversions being recognised in the financial year after the conversion took place. This has resulted in misstatements in the Council's financial statements.
- The value of the misstatements identified in 2021/22 was:

	31/3/21 £m	31/3/22 £m
Overstatement of asset valuations	8.4	0

The Council has adjusted the financial statements for the impact of the above misstatements on the balance sheet at 31 March 2022. It has not adjusted for the prior year impact, which means that the valuation of schools at 31 March 2021 and the loss on disposal of schools recorded in 2021/22 are both overstated by £8.4m. This has been recorded as an unadjusted misstatement in appendix c. We have also raised a recommendation relating to the process for derecognising academy schools on page 34.

#### **Risks identified in our Audit Plan**

#### Commentary

#### Valuation of land and buildings (continued)

The Council revalues its land and buildings on a rolling, fiveyearly basis.

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.

#### Land and Buildings

Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets.

For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset.

We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings is a significant risk, which is one of the most significant assessed risks of material misstatement.

#### Valuation of school buildings

- Our work during 2021/22 identified that the approach taken to the valuation of school buildings applied by the Council's external valuer was incorrect as it did not follow DfE guidance on the use of "base" floor areas when valuing schools on a Modern Equivalent Asset basis.
- The impact of this misstatement on the valuations of schools is set out below.

	31/3/21 £m	31/3/22 £m
Understatement of school valuations	4.8	5.3

The Council has adjusted the financial statements for the impact of the above misstatement on the balance sheet at 31 March 2022, but has not made a prior year adjustment for the impact at 31 March 2021. This has been recorded as an unadjusted misstatement in appendix c.

#### Review of valuation movements for assets not valued in 2021/22

- The Council does not revalue all assets every year, but adopts a rolling 5 year valuation exercise in line with the requirements of the CIPFA Code of Practice. The Council's valuer then undertakes a review to provide assurance that the carrying value of assets not revalued in year is not materially different to fair value.
- As at 31 March 2022 the Council held £85m of assets which were not revalued in 2021/22. The Council's review of movements in value since date of last valuation indicated a potential increase in value for these assets of £2.8m. This has been recorded as an unadjusted misstatement in appendix c.
- This figure is are below our materiality of £14m and as such the Council has complied with the requirements of the CIPFA Code to demonstrate that the carrying value of assets not revalued in year is not materially different to fair value. No adjustment to the financial statements in relation to these differences in valuation is proposed as the valuation approach taken by the Council is in line with the requirements of the CIPFA Code.

#### Terms of engagement

• Valuers should prepare a written terms of engagement that sets out the terms of their engagement and how the instruction of the Council will be met. This is a RICS requirement. We note that the Council did not receive these terms of engagement. These should be secured in future years.

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability	We have:
The pension fund net liability, as reflected in the balance sheet	<ul> <li>updated our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluated the design of the associated controls</li> </ul>
as the net defined benefit liability, represents a significant estimate in the financial statements.	<ul> <li>evaluated the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work</li> </ul>
The pension fund net liability is considered a significant estate due to the size of the numbers involved and the sensitivity of	• assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation
the estimate to changes in key assumptions. We therefore identified valuation of the pension fund net liability as a significant risk, which is one of the most significant assessed risks of material misstatement.	<ul> <li>assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liabilities</li> </ul>
	<ul> <li>tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary</li> </ul>
	<ul> <li>undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report</li> </ul>
	<ul> <li>obtained assurances form the auditor of the Leicestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund's financial statements.</li> </ul>
	We identified the following issue
	<ul> <li>The assurances provided by the auditor of Leicestershire Pension Fund included notification of an unadjusted misstatement in the pension asset values at 31/3/22 for the fund. The share of this error for Leicestershire County was a £2.3m understatement of the pension asset value. This has been recorded as an unadjusted misstatement in appendix c.</li> </ul>

end balance. This is not unusual for pension funds.

We note that due to the timing of the valuations for the pension fund that there is a timing difference to the actual year

## 2. Financial Statements - Other risks

#### Commentary

#### Valuations of Infrastructure Assets

The CIPFA Code of Practice on Local Authority Accounting states that Infrastructure assets shall be measured at depreciated historical cost. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (i.e. brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment.

We identified a risk that the carrying value of infrastructure assets is not appropriate given the nature of how the assets are held on the balance sheet and monitored through the asset register. The inherent risks which we identified in relation to infrastructure assets were:

- an elevated risk of the overstatement of Gross Book Value and accumulated depreciation figures, due to lack of derecognition of replaced components
- a normal risk of understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairment of infrastructure assets and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UELs) in calculating depreciation charges.

We have been working with CIPFA and the English Government to find both long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions are being put in place in the interim. These short-term solutions include the issue of a Statutory Instrument (SI) by government. The English SI was laid before Parliament on 30 November 2022 and came into force on 25 December 2022. CIPFA issued an update to the Code for infrastructure assets in November 2022 and has issued further guidance in January 2023 in relation to useful economic lives (UELs).

We have completed the following work focusing on the Council's current year's infrastructure assets:

- Reviewed and challenged the arrangements that the Council has in place around impairment of infrastructure assets
- Evaluated management's processes and assumptions for the calculation of the estimate including review of in-year depreciation and associated UELs
- Challenged the information and assumptions used to inform the estimate
- Considered whether there has been any replacement of assets that have not been fully depreciated and evaluated the subsequent derecognition of the replaced assets.

Based on our work, we are satisfied that the Council has:

- correctly applied the SI and the requirements in the CIPFA Code update
- appropriately removed the gross book value and accumulated depreciation from its disclosures adding a new disclosure setting out opening net book value and any in-year movements
- not identified any prior period adjustments requiring disclosure in the accounts.

### **2. Financial Statements - Other risks**

Risks identified in our Audit Plan	Commentary
Completeness of non-pay operating expenditure	We have
Non-pay expenses on other goods and services also represents	• evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness
a significant percentage of the Council's operating expenses.	<ul> <li>gained an understanding of the Council's system for accounting for non-pay expenditure</li> </ul>
Management uses judgement to estimate accruals of un- invoiced costs. Management also undertake an assessment of the levels of grant income received in the financial year to be deferred to future years based on the specific terms and	<ul> <li>tested a sample of balances included within trade and other payables</li> </ul>
	<ul> <li>tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period.</li> </ul>
conditions of funding.	• tested a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial
We therefore identified completeness of non-pay expenses as a	accounting period
risk requiring particular audit attention.	No issues arose which we consider we need to bring to the attention of the Corporate Governance Committee.

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## **2. Financial Statements – new issues and risks**

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
General ledger code structure and the postings	We continue to develop our audit approach and have undertaken a more detailed review of the Council's ledger structure and use of journals. We have agreed with officers that we will review the matters outlined	The complexity of the coding structure used by the Council and in particular the
As set out o page 7, review of journal postings is a key element of our audit testing designed to address a mandated significant risk relating to the potential for management override of controls.	below post the audit to understand whether audit and accounting processes can be made more efficient. We noted the following points from our review of journals processes and postings during 2021/22:	accumulation of large debit and credit balances on the balance sheet increases the risk of potential material
	As noted, the Council's ledger structure (which includes 3,150 balance sheet codes and 54,000 code micrombinations) and approach to financial management gives rise to a significant volume of journal postings. In total there were 327,588 postings identified for 2021/22, however only around 1% of these (3,861) were re	misstatements occurring due to error, and as a consequence increases the time required to carry out the audit process to address this risk.
The Council's ledger structure and approach to financial management gives rise to a	accounts payable and accounts receivables ledger modules. Journal postings below £20k do not require independent authorisation. We reviewed the total volume and value of these postings and concluded that the value of manual journals not subject to independent	This is increased by the significant use of journals and the use of manual mass postings of income, expenditure and reserve balances each month.
significant volume of journal postings. In total there were 327,588 postings recorded on the general ledger for 2021/22. Review and analysis of this volume of transactions as required to enable us to carry out journal testing represents a significant area of audit input.		We have raised a recommendation on page 34.
	The Council ledger structure is also set up in such a way that for many balance sheet codes, separate debit and credit codes are maintained. This leads to sometimes significant balances building up on codes where have not always been cleared down promptly. As an example, in 2021/22 the Council posted a journal for £25.8bn to clear down accumulated debit and credit balances on the General County Fund Bank - General Cash Control accounts. Whilst there is no indication of any errors in the posting made, the need to make journal adjustments of such value and the accumulation of such significant balances on the ledger increases the risk of potential material misstatements occurring due to error.	We continue to develop our audit approach and have undertaken a more detailed review of the Council's ledger structure and use of journals this year. We have agreed with officers that we will review these matters to understand whether audit and accounting processes
	The Council undertakes regular monthly journal postings in which the council transfers all amounts from individual income and expenditure codes based on cost centre and subjective to the relevant CIES categories (i.e. public health, C&FS+Schools, E&T etc). This allows the Council to report full expenditure per category. These amounts are then transferred to the general fund within the Balance sheet, also accounting for the movement in reserves, provisions and trust funds. We consider that the extent of posting increases the risk that there may be errors in amounts and account codes as these are manually typed in by the finance team. We have raised a recommendation on this matter.	can be made more efficient.

# 2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

#### lssue

postings (continued)

income between cost centres.

General ledger code structure and the

Our review of income and non pay expenditure

transaction populations identified a significant

volume and value of gross debits and credits included in populations due to the way the

Council uses journals to reallocate costs and

#### Commentary

The values identified in our review of populations were are set out below:

	Fees and charges £000s	Non pay expenditure £000s
Gross debits	£71,994	£777,889
Gross credits	(£256,372)	(£244,402)
Total gross value of transactions	£328,366	£1,022,291
Net value of transactions – per accounts	(£184,378)	£533,488

#### From an external audit perspective, inclusion of large numbers of gross debit and credit items in populations increases the level of audit input and testing required as audit tested has to cover the total gross value of transactions, and not just the net balance.

**Auditor view** 

The Council could reduce the level of audit input required in these areas by "cleansing" populations prior to audit to ensure that only those transactions which directly impact on the financial statements are included in populations provided for audit.

We continue to develop our audit approach and have undertaken a more detailed review of the Council's ledger structure and use of journals this year. We have agreed with officers that we will review these matters to understand whether audit and accounting processes can be made more efficient.

## 2. Financial Statements - new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view	
Debtor and creditor ledger codes	Our audit work on debtor and creditor balances at 31 March 2022	The complexity of the coding structure used by the Council	
The Council's ledger includes a large number of codes which make up the year end debtor and creditor figures. At 31 March 2022 the number of codes were: Debtor codes – 246 codes Creditor codes – 622 codes The approach taken by the Council is to maintain up separate debit and credit ledger codes for transactions such as payroll and VAT postings. This leads to large debit and credit balances on the ledger and requires a review by Council officers to ensure that balances are netted off where required in preparing the financial statements.	identified the following issues: Incorrect netting off of debtor and creditor codes We identified that a number of debtor and creditor codes had been incorrectly netted off when preparing the draft financial statements,	<ul> <li>increases the risk of error in the preparation of the financial statements, as demonstrated by the £43m error to debtor and creditor balances at 31 March 2022 identified during the 2021/22 audit</li> <li>Increases the level of reconciliations required to ensure proper control over balances, and the risk that reconciliations are not undertaken on all ledger codes – such as the sundry creditor code identified in 2021/22 which had unreconciled postings going back to 1996.</li> </ul>	
	leading to an understatement of both debtor and creditor balances by £43m. This is included in the schedule of corrected misstatements in appendix c. Lack of review and reconciliation of code balances Review of balances on creditor codes identified one instance (sundry		
	creditors code Bonds-Interest Bearing Bonds-Reserved Creditors, cost centre 91303, subjective 9722) where postings had not been effectively reviewed and reconciled. The code included postings dating back to 1996 which had not been fully reviewed or reconciled. The net balance on the code at 31/3/22 was £4.6m but made up of gross balances of £21.9m debits and £26.6m credits. We were able to obtain assurance that the year end balance was not materially misstated, but this required considerable input from both the audit team and Council officers to fully understand and test balances on the code.	From an audit perspective, the coding structure in place, the large number of ledger codes and the instance noted of review and reconciliation of balances on codes were not being undertaken also increases audit risk and as a consequence significantly increases the time required to carry out the audit process. We continue to develop our audit approach and have undertaken a more detailed review of the Council's ledger structure and use of journals this year. We have agreed with officers that we will review these matters to understand whether audit and accounting processes can be made more efficient.	
Derecognition of plant and equipment on disposal We carried out testing on a sample of 5 fully depreciated plant and equipment assets held	Although the sample of assets undertaken was of fully depreciated assets which have nil net book value, testing indicates that gross cost and depreciation are potentially overstated as assets are not being removed from the asset register on disposal and/or write off.	The Council should implement a process to ensure that assets are removed from the fixed asset register on disposal.	
on the fixed asset register to ascertain whether the assets were still in use. Of the sample of 5 reviewed, 2 were found to have been disposed of but were still held on the fixed asset register at 31 March 2022.	The total value of gross cost of fully depreciated plant and equipment assets as at 31 March 2022 held on the fixed asset register was £12.031m, which is not a material figure in total.		

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £387.3m (amended accounts figure)	Other land and buildings comprises £387.3m of assets held at fair value. Of these assets, those with a value of £294.4m were revalued in 2021/22. Specialised asse such as schools and libraries were valued based on depreciated replacement cost (DRC) at year end. The remaining operational assets together with £2.9m of surplus assets and £1.8m of investment property were valued on an open market basis.	See comments on issues arising from our audit of valuations on pages 11 to 13.	Grey
	The Council uses an external valuer to complete the valuation of properties as at 1 October 2021 on a five yearly cyclical basis. All DRC assets are revalued each year. For 2021/22 the valuation of DRC assets has been updated to 31 March 2022 using appropriate BCIS indices.		
	Management has considered the year end value of non-valued properties and the potential valuation change in these assets based on application of relevant indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to valuations.		

#### Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant judgement or estimate	Summary of management's approach	Audit Comments				Assessment
£576.4m liabili £576.76 relati Pensi The C Robe actua Cour liabili scher fundi every full a valua at 31 Giver the n small assur signi move £211.1 recog Com	The Council's net pension liability at 31 March 2022 is £576.4m (PY £835.5m) relating to Leicestershire Pension Fund.	<ul> <li>We have</li> <li>Undertaken an assessment of management's expert</li> <li>Assessed the reasonableness of the actuary's approach and of any changes compared to the prior year</li> <li>Used PwC as an auditors expert to assess actuary and assumptions made by actuary – as set out below</li> </ul>			Light purple	
	The Council uses Hymans Robertson LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial funding valuation is required every three years. The latest full actuarial funding valuation was completed as at 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £211.1m net actuarial gain recognised in the Comprehensive Income and Expenditure account during 2021/22.	Assumption	Actuary Value	PwC range	Assessment	
		Discount rate	2.7%	2.7% - 2.75%	•	
		Pension increase rate	3.2%	3.15% - 3.3%	•	
		Salary growth	3.7%	0.5% to 2.5% above pension increase rate	•	
		Life expectancy – Males currently aged 45 / 65	22.4/21.5	Confirmed consistent	•	
		Life expectancy – Females currently aged 45 / 65	25.7/24.0	Confirmed consistent	•	
		<ul> <li>Sought explanations directly funderlying assumptions.</li> <li>Reviewed the completeness an</li> <li>Reviewed the reasonableness</li> <li>Assessed the adequacy of dis</li> <li>We have received assurances frodata, contributions, benefits and</li> </ul>	nd accuracy of the un of the Council's share closure of estimate in m the auditor of Leice	derlying information used t of LGPS pension assets. the financial statements stershire Pension Fund on th	o determine the estimate	

As set out on page 12, the auditor for the pension fund has reported an unadjusted error relating to an understatement of pension asset values at 31 March 2022. The share of this error for Leicestershire County Council is £2.3m, this has been reported as an unadjusted misstatement in appendix c.

#### Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- @ 2023 Grant Thom We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Debtors credit loss allowance - £6.5m (prior year - £4.7m)	The Council includes a credit loss allowance against outstanding debtor balances. The level of credit loss allowance is calculated on the following basis:	Based on our own review of the level of outstanding debtor balances we have concluded that there is unlikely to be a material misstatement in the total credit loss allowance figure	● Blue
	A) Review of specific balances requiring provision	as at 31 March 2022.	
	B) Residential social care debt	Calculating the provision based on a 50% provision on balances over 6 month old and a 100% provision on balances	
	Less than one year old – 5% provision	over 1 year old would increase the provision by £2.0m. In order	
	1-2 years old – 25% provision	to fully evaluate the potential impact on the financial statements we have recorded this as an unadjusted misstatement in appendix c. Given significant changes to the wider economy in recent years, the Council should review the basis of calculation of the credit loss allowance to ensure that it is based on current, reliable data on the level of credit losses expected. Recommendation made – see page 34.	
	Over 2 years old – 50% provision		
	C) Non residential debt		
	Less than 6 months old – 5% provision		
	1-2 years old – 50% provision		
	Over 2 years old – 100% provision		
	Our discussions with finance staff indicate that this policy has been applied for a number of years without amendment. We requested evidence to support the validity of the percentages used such as evidence on actual levels of debt write offs/recoverability but the Council has been unable to provide this level of evidence to support the reasonableness of the percentages used.		

#### Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision (MRP) - £6.2m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. During 2020/21 the Council changed the basis of calculation of the MRP from a 4% reducing balance approach for supported borrowing to a 40 year straight line basis. The Council considered that this represented a more appropriate approach. The total amount of MRP payable was not affected by this change but it did mean a reduction in the charge in earlier years compared to the previous reducing balance approach. This change was approved by full Council at their meeting on 25 February 2021. The year end MRP charge was £6.2m, which is in line with the MRP charge in 2020/21. The CFR as at 31 March 2021 was £214m, compared to a total debt of £264.8m . As such the Council was "overborrowed" by £50m at 31 March 2022 but expects this situation to reverse as debt is repaid.	<ul> <li>We reviewed whether:</li> <li>the MRP had been calculated in line with the revised policy</li> <li>the calculations to support the 40 year estimated average remaining useful lives of assets were reasonable and supported.</li> <li>Based on the above assessment we consider that management's estimate is reasonable.</li> </ul>	• Light purple

#### Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

lssue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Corporate Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council.

## **2. Financial Statements - other communication requirements**



Issue	Commentary		
Confirmation requests from	We requested from management permission to send confirmation requests for all material investment and bank balances. This permission was granted and the requests were sent.		
third parties	At the time of issue of this report one responses had not been received relating to balances with HSBC (£40m). We have undertaken alternative audit procedures to obtain assurance on the validity of this investment balance at 31 March 2022, including confirmation of receipt of funds on maturity of the investment in 2022/23.		
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.		
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.		
	We did not experience significant difficulties with the audit evidence, explanations or level of co-operating provided by the Council.		
Other matters	We identified an IT security matter during the audit. Due to the sensitivity of the matter we will discuss this with the Corporate Governance Committee in private.		

### **2. Financial Statements - other communication requirements**

$\sim$	Issue	Commentary
Our responsibility As auditors, we are required to "obtain	e e le	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.
sufficient appropriate audit evidence about the appropriateness of		Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:
management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA		<ul> <li>the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> </ul>
UK) 570).		<ul> <li>for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.</li> </ul>
		Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:
		the nature of the Council and the environment in which it operates
		the Council's financial reporting framework
		• the Council's system of internal control for identifying events or conditions relevant to going concern
		management's going concern assessment.
		On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:
		<ul> <li>a material uncertainty related to going concern has not been identified</li> </ul>
		• management's use of the going concern basis of accounting in the preparation of the financial statements is

management's use of the going concern basis of accounting in the preparation of the financial statements is • appropriate.

# 2. Financial Statements - other responsibilities under the Code

Issue	Commentary	
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	
	No inconsistencies have been identified/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to appendix E	
Matters on which	We are required to report on a number of matters by exception in a number of areas:	
we report by exception	• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,	
	<ul> <li>if we have applied any of our statutory powers or duties.</li> </ul>	
	<ul> <li>where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness.</li> </ul>	
	We have nothing to report on these matters.	



# 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. The Council does not exceed the specified group reporting threshold of £2 billion and as such detailed
	procedures are not required.
Certification of the closure of the audit	We intend to certify the closure of the 2021/22 audit of Leicestershire County Council in the audit report.

## **3. Value for Money arrangements**

### Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.





### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



#### **Financial Sustainability**

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



#### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

### Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



#### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

#### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

#### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

## **3. VFM - our procedures and conclusions**

We have completed our VFM work and our detailed commentary is set out in the separate VFM Summary report which is due to be presented to the Corporate Governance Committee in March 2023 alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions.

We identified no significant weaknesses in our final report but have made a total of seven improvement recommendations.

We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
<ul> <li>Financial sustainability was identified as a potential significant weakness:</li> <li>Identification of future savings: adequacy of the arrangements for identification of future savings to enable a balanced financial position to be delivered beyond 2022/23.</li> <li>Impact of pay and price inflation and demand pressures: the ability of the Council to adapt financial plans and secure savings required to counter the impact of price and pay inflation and demand pressures.</li> <li>see 10 for more details.</li> </ul>	<ul> <li>We have reviewed and considered the Council's arrangements in place during the year for monitoring and reporting on its short and medium term financial position, including:</li> <li>the impact of the economic climate and in particular the rising rate of inflation.</li> <li>the arrangements for the identification of future savings.</li> <li>plans for mitigating financial risk.</li> <li>forecast outturn position and plans for delivering a balanced year end position.</li> </ul> The SEN budget remains under significant pressure with an in year deficit of £11m for 2021/22 and a cumulative deficit of £37m which is forecast to increase significantly in later years.	<ul> <li>From our work carried out we have concluded that, in general, there are plans in place to address the funding gap for 2022/23 and beyond.</li> <li>This includes the identification of savings, savings in development and contingency arrangements for delivering a balanced outturn.</li> <li>We have therefore not reported a significant weakness within our report, however, we have made improvement recommendations that the Council should</li> <li>continue to develop and implement mitigating actions to address the significant budget deficit forecast for 2022/23.</li> <li>take appropriate actions to reduce its cumulative SEND deficit</li> </ul>	Appropriate arrangements are generally in place. However, we are concerned at the size of the SEND budget deficit and have raised an improvement recommendation, and have also raised an improvement recommendation with regard to the Council's financial sustainability.

### 4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

#### Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see <u>Transparency report 2020</u> (grantthornton.co.uk)

### 4. Independence and ethics

#### Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension claim	5,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,500 in comparison to the total fee for the audit of £114,715 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	



## A. Action plan – Audit of Financial Statements

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations		
•	Timing of the derecognition of academy schools Our testing has identified that there is have been delays in the removal of two academy schools from the Council's asset register on conversion to academy status. This relates to the build of the schools and the management of assets under construction. This has resulted in disposals being recorded in the incorrect financial year.	<ul> <li>The Council should implement processes to ensure that schools are derecognised promptly on their conversion to academy status.</li> </ul>		
•	General ledger coding structure The Council ledger structure is also set up in such a way that for many balance sheet codes, separate debit and credit codes are maintained. This leads to sometimes significant balances building up on codes where have not always been cleared down promptly. It should consider whether the c54,000 codes that it uses are needed.	<ul> <li>The Council should review the need to maintain separate debit and credit ledger codes for account balances. Where they are required for reconciliation purposes the Council should ensure that they are cleared down regularly, as a minimum every financial year.</li> <li>We have agreed to review this area with officers post audit.</li> </ul>		
•	Income and expenditure gross balances Our review of income and non pay expenditure transaction populations identified a significant volume and value of gross debits and credits included in populations due to the way the Council uses journals to reallocate costs and income between cost centres.	<ul> <li>The Council could reduce the level of audit input required in these areas by "cleansing" populations prior to audit to ensure that only those transactions which directly impact on the financial statements are included in populations provided for audit.</li> <li>We have agreed to review this area with officers post audit.</li> </ul>		

#### Controls

- High Significant effect on financial statements
- Medium Limited Effect on financial statements
- Low Best practice

## A. Action plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
	Use of a large number of ledger codes within debtor and creditors	The Council should
-	The Council's ledger includes a large number of codes which make up the year end debtor and creditor figures. The approach taken by the Council is to maintain up separate debit and credit	<ul> <li>review the need to maintain a high number of separate ledger codes within debtors and creditors</li> </ul>
	ledger codes for transactions such as payroll and VAT postings. This leads to large debit and credit balances on the ledger and requires a review by Council officers to ensure that balances are netted off where required in preparing the financial statements.	<ul> <li>Establish a clear framework setting out which codes can be netted off when preparing financial statements and which codes need to be presented gross.</li> </ul>
		We have agreed to review this area with officers post audit.
	Reconciliation of ledger codes	<ul> <li>The Council should ensure that full reconciliations are undertaken</li> </ul>
	Our audit testing identified one creditors code which had not been fully reconciled for some time, and included postings dating back to 1996.	<ul><li>on all ledger codes and old balances cleared as appropriate.</li><li>We have agreed to review this area with officers post audit.</li></ul>
	Derecognition of plant and equipment assets on disposal	The Council should
	Testing of a sample of fully depreciated assets identified a number which had been disposed of or written off but were still included on the fixed asset register. As a result gross cost and depreciation are potentially overstated.	<ul> <li>implement processes to ensure that plant and equipment assets disposed of or written off are removed from the fixed asset register promptly, and</li> </ul>
		<ul> <li>Review the current fixed asset register to identify any further assets still held on the fixed asset register which have been disposed of or written off.</li> </ul>
	Calculation of the debtors credit loss allowance	The Council should review the basis of calculation of the credit loss
	Our discussions with finance staff indicate that this policy has been applied for a number of years without amendment. We requested evidence to support the validity of the percentages used such as evidence on actual levels of debt write offs/recoverability but the Council has been unable to provide this level of evidence to support the reasonableness of the percentages used.	allowance to ensure that it is based on current, reliable data on the level of credit losses expected.
	Journal authorisation	The Council should ensure that all journals are reviewed and
	We note that journals below £20,000 are not authorised. While the value is below materiality (c.£5m) we consider that this is a control weakness and that all journals should be reviewed and authorised.	approved by an independent officer.

## A. Action plan - Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
•	Mass migration journals The Council undertakes regular monthly journal postings in which the council transfers all amounts from individual income and expenditure codes based on cost centre and subjective to the relevant CIES categories (i.e. public health, C&FS+Schools, E&T etc). We consider that the extent of posting increases the risk that there may be errors in amounts and account codes as these are manually typed in by the finance team. We have raised a recommendation on this matter.	<ul> <li>The Council should review its use of journals and monthly closedown procedures to ensure that its processes continue to be appropriate.</li> <li>We have agreed to review this area with officers post audit.</li> </ul>

## **B. Follow up of prior year recommendations**

We identified the following issues in the audit of	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Leicestershire County Council's 2020/21 financial statements, which resulted in	√	Inappropriate segregation of duties as developers have access to the production environment It is recommended that:	Evosys users now only use their accounts on a read-only access capacity. Therefore, these users are not assigned with the ability to implement changes within production.
one recommendation being reported in our 2020/21 Audit Findings report.		<ul> <li>Management should segregate a user's ability to develop and implement changes. Privileged access to the production environment should be revoked from users that are involved in development.</li> </ul>	Our review of journal postings in 2021/22 identified no instances of postings being made by Evosys users.
We are pleased to report that management have implemented all of our recommendations.		• If for operational reasons access cannot be fully segregated, a risk assessment should be undertaken, documented and formally accepted. Alternative options to mitigate the risk could include performing a review of change implementation activity logs. These should be regularly reviewed for appropriateness by an independent individual with evidence retained.	
	✓	Year end bank reconciliations	No issues noted with bank reconciliations at
		<ul> <li>Finance staff should fully reconcile all Council bank accounts on a monthly basis and investigate and clear all reconciling items.</li> </ul>	31 March 2022
	✓	Year end sales ledger reconciliations	No issues noted with sales ledger
Assessment		• Finance staff should fully and routinely reconcile the general ledger balance to the sales ledger, and investigate and clear all reconciling items.	reconciliations at 31 March 2022
✓ Action completed			
X Not yet addressed			

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

#### Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Impact on total net expenditure £m
Write off of academy land	0	Cr land and buildings - £211	0
valuation (p 12)		Dr revaluation reserve - £156.7	
		Dr Capital Adjustment Account - £54.3m	
Correction to valuation of school	0	Dr land and buildings - £5.3	0
buildings (p 13)		Cr Revaluation reserve - £5.3	
Grossing up of debtors and	0	Dr debtors -£43.1	0
creditors (p19)		Cr creditors - £43.1	
Overall impact	0	Cr land and buildings - £205.7	0
		Dr revaluation reserve - £151.4	
		Dr Capital Adjustment Account - £54.3m	
		Dr debtors -£43.1	
		Cr creditors - £43.1	

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Accounts o	area	Auditor recommendations	Adjusted?
Note 17 – Pr	operty, Plant and Equipment	Amendment to presentation of in year movements on assets under construction.	1
Accounting valuation	policies – Academy School land	Amendment to disclosures to reflect changes to the approach taken to the valuation of academy school land	1



#### Impact of unadjusted misstatements - 2021/22

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Corporate Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Overstatement of pension liability	0	Dr Pension liability - £2.3m	0	Not material
(p 14)		Cr Pension reserve - £2.3m		
Potential understatement of debtors credit loss allowance (p22)	Dr Operating expenditure - £2.0m	Cr Debtors - £2.0m	Dr Operating expenditure - £2.0m	
Derecognition of academy schools in the incorrect financial year (p12)	Cr Loss on disposal of assets - £8.4m	No impact on position at 31 March 2022	Cr Loss on disposal of assets - £8.4m	
Potential overstatement of debtor balances due to subsequent issue of credit notes (p 9)	Dr income £1.0m	Cr Debtors £1.0m	Dr income £1.0m	
Movement on valuations on		Dr land and buildings - £2.8m		
assets not revalued in 2021/22 (p13)		Cr revaluation reserve - £2.8m		
Overall impact	Dr Operating expenditure -	Dr Pension liability £2.3m	CIES net impact -	
	£2.0m	Cr Debtors - £3.0m	Cr £5.4m	
	Cr Loss on disposal of assets - £8.4m	Dr Land and buildings - £2.8m		
	Dr income £1.0m	Cr reserves - £5.1m		



#### Impact of unadjusted misstatements - 2020/21

The table below provides details of adjustments identified during the 2021/22 audit which relate to the position at 31/3/21 and have not been made within the final set of financial statements. The Corporate Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Impact on total net expenditure £m	Reason for not adjusting
Derecognition of academy schools in the incorrect financial year (p12)	Dr loss on disposal - £8.4m	Cr land and buildings - £8.4m	Dr loss on disposal - £8.4m	Immaterial
Correction to valuation of school buildings (p 12)	0	Dr land and buildings - £4.8m	0	Immaterial
		Cr Revaluation reserve - £4.8m		
Overall impact	Dr CIES - £8.4m	Cr land and buildings - £3.6m	Dr CIES - £8.4m	
		Cr revaluation reserve - £4.8m		

Impact of prior year unadjusted misstatements identified during the 2020/21 audit

No further unadjusted misstatements were reported in our prior year Audit Findings Report.

### We confirm below our final fees charged for the audit and provision of non-audit services.

The fees reconcile to the financial statements.

Audit fees	Proposed fee	Final fee
Council Audit	114,715	£139,777
Total audit fees (excluding VAT)	£114,715	£139,777*

\* Subject to PSAA approval

Non-audit fees for other services	Proposed fee	Final fee
Teachers Pension grant claim certification	5,500	5,500
Total non-audit fees (excluding VAT)	£5,500	£5,500

### **D.** Fees

### Fee analysis

Audit fees	Estimated fee
Scale fee	62,252
Reduced materiality	6,250
PPE valuations	2,500
Use of expert	5,000
Pension liability	4,375
Value for Money audit – new NAO requirements	19,000
ISA 540	3,900
Additional journals testing	5,000
nfrastructure	5,000
PPE – valuation errors	5,500
PPE – derecognition of schools errors	5,000
Credit loss allowance and debtors errors	5,000
Debtors, Creditors netting off error	5,500
Ledger configuration, Credits, Debits – additional testing and review	5,500
Estimated fee	139,777



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APPENDIX C



### The Audit Findings for Leicestershire County Council Pension Fund

Year ended 31 March 2022

March 2023



### Contents

#### The contents of this report relate only to the Section Page matters which have come to our attention, 1. Headlines 3 which we believe need to be reported to you as part of our audit planning process. It is 4 2. Financial statements not a comprehensive record of all the 3. Independence and ethics 15 relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the Appendices risks which may affect the Pension Fund or 17 all weaknesses in your internal controls. This A. Action plan report has been prepared solely for your 20 B. Follow up of prior year recommendations benefit and should not be guoted in whole or C. Audit adjustments 21 in part without our prior written consent. We do not accept any responsibility for any loss 24 D. Fees occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was

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### **1. Headlines**

This table summarises the key findings and other matters arising from the statutory audit of Leicestershire County Council Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

#### **Financial Statements**

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed both on site and remotely during July-November. Our findings are summarised on pages 17 to 23. We have identified 1 uncorrected adjustment to the financial statements that would have resulted in a £7.95m adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- receipt of management representation letter;
- receipt and review of the final annual report; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion at this stage will be unmodified.

### **2. Financial Statements**

#### Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Corporate Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

#### Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan as communicated to you in September 2022.

#### Conclusion

We have substantially completed our audit of your financial statements and subject to review of outstanding items, we anticipate issuing an unqualified audit opinion. We cannot issue our opinion until audit work on the County Council's accounts (as Administering Authority and whose accounts the Pension Fund's accounts form part of) has been completed and therefore we anticipate this being in March 2023. These outstanding items include:

- receipt of management representation letter;
- receipt and review of the final annual report; and
- review of the final set of financial statements.

#### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the Treasury and Pension Team staff. The impact of the pandemic has meant that meant that both teams have had to operate remotely on occasion.

### **2. Financial Statements**

#### Pension Fund Amount (£) Qualitative factors considered



#### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan in September 2022.

We detail in the table adjacent our determination of materiality for Leicestershire County Council Pension Fund.

		•
Materiality for the financial statements	£40.53m	We determined materiality for the audit of the Pension Fund's financial statements as a whole to be £40.53m, which is approximately 0.7% of the Pension Fund's net assets as at 31 March 2021. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in the Pension Fund's ability to pay pension liabilities as they fall due.
Performance materiality	£28m	We have determined £28m (70% of materiality) to be an appropriate level for Performance Materiality. There are no significant changes in the activities of the Pension Fund nor have we identified indications of higher fraud risk. We are also not aware of a history of significant deficiencies and there has not been a large number of significant misstatements arising as a result of the financial statements audit.
Trivial matters	£2m	We deem matters below 5% of materiality to be sufficiently trivial not to warrant drawing to the attention of the Corporate Governance Committee.



## **2. Financial Statements - Significant risks**

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls	We have:
Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Pension Fund faces external scrutiny of its stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, this was one of the most significant assessed risks of material misstatement.	<ul> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration</li> <li>gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence</li> <li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions</li> </ul>
	We have noted two control deficiencies in regard of the journal entries process, these pertain to senior officers of the corporate finance team's ability to enter journals and a lack of segregation of duties regarding the authorisation of journals below £20,000.
	We identified 4 journals entered by these senior officers and we conducted additional testing on these journals. No irregularities were noted.
	We tested a sample of high risk and unusual journals (both authorised and unauthorised). No issues have been identified as a result of our testing of these journals.
	While we are satisfied that there is no evidence of management override of controls through senior officers of the corporate finance team entering journals or in regard to the lack segregation of duties issue, we bring this to the attention of those charged with governance as it relates to a significant risk area. We have included a recommendation that senior officers' ability to enter journals is removed and that all journals, including those under £20,000, are subject to review and authorisation.
	We have also reviewed the significant estimates in the financial statements. We have not identified any indications of management bias in estimates included in the financial statements.

### **2. Financial Statements - Significant risks**

Risks identified in our Audit Plan	Commentary
Fraud in revenue recognition (rebutted)	
Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	There were no changes to our assessment reported in the audit plan and do not consider this to be a significant risk. The audit work performed did not identify any issues in respect of revenue recognition.
Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:	
• there is little incentive to manipulate revenue recognition	
<ul> <li>opportunities to manipulate revenue recognition are very limited</li> </ul>	
<ul> <li>the culture and ethical framework of Leicestershire County Council as administering authority of Leicestershire County Council Pension Fund, means that all forms of fraud are seen as unacceptable</li> </ul>	
Therefore we do not consider this to be a significant risk.	
Fraud in expenditure recognition – Practice Note 10 (rebutted)	There were no changes to our assessment reported in the audit plan and do not consider this to be a significant risk. The
In line with the Public Audit Forum Practice Note 10 in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition	audit work performed did not identify any issues in respect of expenditure recognition.

may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).

We have considered this risk for the Pension Fund and have determined it to be appropriate to rebut this risk based on limited incentive and opportunity to manipulate expenditure.

### **2. Financial Statements - Significant risks**

Risks	identified	in our	Audit Plan	
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Commentary

#### Valuation of level 3 investments

The Pension Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.

By their nature level 3 investment valuations lack observable measurable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Under ISA 315 significant risks often relate to significant nonroutine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2022.

We therefore identified valuation of level 3 investments as a significant, which was one of the most significant assessed risks of material misstatement.

- We have :
- evaluated management's process for valuing level 3 investments
- reviewed the nature and basis of estimated values and considered the assurance management have over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met
- · independently requested year-end confirmations from investment managers and custodians
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2022 with reference to known movements in the intervening period
- in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert
- tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register
- where available reviewed investment manager service auditor reports on design effectiveness of internal controls

#### Conclusion

Our audit work identified that the actual value of financial investments at 31 March 2022 had risen by £7.95m from that estimated in the financial statements. This was largely attributed to 31 March 2022 fund manager reports not being available when the Pension Fund's financial statements presented for audit were closed down. Management have chosen not to amend the accounts for this difference.

## 2. Financial Statements - key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment			
Level 3 Investments - £1,918.2m The prostate For per pre of e will opp mov The ance lace lace refe of t Opp The larg the	<ul> <li>Summary of management's approach</li> <li>The Pension Fund has pooled investment vehicles (£1,797.9m) and properties (£120.3m) that in total are valued in the net assets statement as at 31 March 2022 at £1,918.2m.</li> <li>For pooled investment vehicles, management receive quarterly performance reports which are reviewed and subsequently presented to the Local Pensions Board in order to provide scrutiny of estimates and consider any uncertainty. Key fund managers will periodically attend committee meetings which provides an opportunity for officers and members to challenge any unusual movements or assumptions.</li> <li>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value,</li> </ul>	Audit Comments Management determine the value of pooled investment vehicles through placing reliance on the reports provided investment managers. As such we sought and reviewed confirmations of year end valuations for all sampled investment managers. We reviewed the audited accounts and unaudited valuations at the audited accounts date to determine if values estimated are reasonable. Where provided, we further reviewed service organisation reports for the investment managers. Please see our findings on page 8 where we identified a £7.95m change in the final value of pooled investment vehicles from the estimated value in the financial statements. For properties, we are satisfied that the Pension Fund's	Assessment			
	<ul> <li>ack of observable inputs. In order to determine the value, management rely on the valuations provided by investment managers for the pooled investment vehicles which the Pension Fund invests in.</li> <li>For directly held properties, the Pension Fund engages an expert valuer who determines the fair value of investment properties with reference to rent and market yields for similar properties for 97.7% of the portfolio. The remaining 2.3% is valued internally by Operational Property Services.</li> </ul>	expert, Colliers Capital is competent, capable and objective. An assessment was only performed for Colliers Capital noting that the sample of properties tested were those valued by Colliers Capital. We agreed the underlying information used to determine the estimate by the valuer and are satisfied that this has been appropriately applied. Sensitivities disclosed in the notes to the accounts are reasonable and in line with the Code.				
				The value of investments has increased by £167.8m in 2021/22, largely due to additional investments made during the year and the general recovery of financial markets following the Covid-19 pandemic.	The estimate is adequately disclosed in the financial statements.	

#### Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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# 2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.



Significant matter	Commentary	Auditor view and management response
Effect of market movements on the Pension Fund's investments following the government's mini budget	Rising interest rates during the period following the announcement of the mini budget impacted pension funds that had significant investments in liability driven investments (LDIs).	Officers at the Pension Fund confirmed that there were no investments in LDIs at 31 March 2022. This is consistent with our understanding.
	LDIs reduce funding level volatility caused by changes in interest rates and future liabilities. This is therefore an investment strategy that focuses on matching assets with current and future liabilities.	

## 2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Corporate Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund, which is included in the Corporate Governance Committee papers.
Confirmation requests from third parties	We requested direct confirmations from the custodian and all fund managers which were all received.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements which were left uncorrected.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

### **2. Financial Statements - other communication requirements**

	lssue	Commentary
Our responsibility As auditors, we are required to "obtain	Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.
sufficient appropriate audit evidence about the appropriateness of		Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:
management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability		<ul> <li>the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> </ul>
to continue as a going concern" (ISA (UK) 570).		<ul> <li>for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting.</li> </ul>
		Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:
		<ul> <li>the nature of the Pension Fund and the environment in which it operates</li> </ul>
		the Pension Fund's financial reporting framework
		• the Pension Fund's system of internal control for identifying events or conditions relevant to going concern
		management's going concern assessment.
		On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:
		<ul> <li>a material uncertainty related to going concern has not been identified</li> </ul>
		<ul> <li>management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

# 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	<ul> <li>The following inconsistencies were identified following our review of the Pension Fund Annual Report:</li> <li>Page 8 of the annual report included a disclosure that fund assets were £5billion which is different to the £6billion (rounded) disclosed in the Pension Fund Net Asset Statement.</li> </ul>
	<ul> <li>Page 10 of the annual report disclosed the closing cash balance as £181m instead of £187m as disclosed in note 12 of the statement of accounts.</li> </ul>
	At the time of signing this report, we had not received the amended annual report to verify that matters identified above are appropriately corrected.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report once we have completed our work on the Administering Authority's accounts.



### **3. Independence and ethics**

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

#### Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see <u>Transparency report 2020</u> (grantthornton.co.uk)

### **3. Independence and ethics**

#### Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Non-audit Related			
IAS 19 Assurances	17,000	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £17,000 in comparison to the total fee for the audit of £33,193 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Corporate Governance Committee. None of the services provided are subject to contingent fees.



### A. Action plan – Audit of Financial Statements

We have identified 5 recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations	
•	<ul> <li>No evidence of review of assumptions used in the valuation of the Pension Fund's direct property portfolio</li> <li>Colliers Capital is engaged by the Pension Fund as an expert to value the Pension Fund's direct property portfolio. As part of this valuation exercise, Colliers provides the Pension Fund with assumptions to be used in valuing the portfolio. However, as part of the audit we were not provided with evidence of review by the Pension Fund of the assumptions used in the valuation process.</li> <li>Lack of review of these assumptions could result in errors going undetected. Further, lack of review does not evidence that the Pension Fund is taking ownership of the services being provided by the expert noting that the values provided will be reported by the Pension Fund in the financial statements.</li> </ul>	Assumptions used by the expert should be reviewed by Fund Officers ensuring that where any concerns arise or issues identified, these are communicated to the expert. <b>Management response</b> Agreed. Colliers is an independent valuation expert. A review by internal qualified Property Valuers will be undertaken.	
•	Journal controls – lack of segregation of duties		
	The journal entries process does not require approval for entering journals below £20,000. Failure to have a separate preparer and approver for	We recommend automated preventative segregation of duty controls are built into the finance system to prevent transactions being entered and approved by the same user.	
	journals could promote fraudulent financial reporting though we note this would require the entering of multiple journal entries below £20,000 for the impact to be material. We note that journal entries entered during the year which were below £20,000 had a combined value which was below £1m	We recommend in the meantime that the journals process be amended to make it mandatory for all journals to be approved by a separate individual regardless of journal value.	
	hence having a low risk of material misstatement.	Management response	

Agreed. We will review how additional controls can be added to the process.

#### Controls

- High Significant effect on financial statements
- Medium Limited Effect on financial statements
- Low Best practice

### A. Action plan – Audit of Financial **Statements (continued)**

sessment	Issue and risk	Recommendations	
•	Journal controls – senior officers of the corporate finance team		
	Senior officers have access privileges built into the financial system which allow them to be able to enter journals. As senior officers, this privilege is deemed incompatible with the role, and is an enabler of management override of control.	We recommend journal posting privileges are removed for senior officers. <mark>Management response</mark> Agreed. Journal entry access will be removed.	
	There were 4 journals entered by senior officers during the year. Following our review of these journals we concluded that they were reasonable with reference to the Pension Fund's operations.		
•	Internal control reports and bridging letters		
	Fund Officers regularly review services provided by Investment Managers and other service providers. As part of this monitoring exercise, management are delegated the task of reviewing investment manager control reports. As part of the audit, we were not provided with the below service organization reports:	We recommend that fund officers ensure that they obtain these internal control reports o seek to understand what alternative testing the investment manager organization perform to ensure that their internal controls around valuation are operating as intended. Management response	
	• KKR & Co	Agreed. We will review the process for documenting how assurance is received.	
	Catapult Ventures		
	Matters that could potentially contradict the accuracy of services provided with specific regard to the valuation of investments could go unnoticed where these reports are not reviewed.		
•	Bodies joining the Pension Fund not accounted for		
	Following our testing of changes to admitted or scheduled bodies, the below organisations were new admissions during the year. However, no contributions were received during the year and thus no accrual made in the general ledger noting that the agreement documents were only signed between and June and July 2022.	The Pension Fund's accounting policy is that contributions are recognized on an accruals basis. Hence, all outstanding contributions at year should be recorded in the general ledger. Management response	
	<ul> <li>MCS Cleaning and Maintenance Ltd (2 employees transferring into the Pension Fund from 1 September 2021)</li> </ul>	Agreed. These were known cases but they cannot be accrued for until the admission documents are signed, which was received too late to include in the draft accounts at the end of June. They totalled less than £5k and given the low value it was not necessary to	
	Cater Link Ltd (3 employees transferring into the Pension Fund from 1 January 2022)	amend the 2021/22 accounts for these. They will be included in the 2022/23 accounts.	
	Where significant, contributions not recorded could have an impact on the amounts disclosed in the financial statements.		

Low – Best practice © 2022 Grant Thornton UK LLP.

## A. Action plan - Audit of Financial Statements (continued)

#### Assessment Issue and risk

#### Recommendations

#### IT System

We identified a number of issues in security and access of Leicestershire County Council's Oracle Fusion and Active Directory. These weaknesses include :

- inadequate control over third-party users assigned privileged access to Oracle Identity Cloud Service (without adequate oversight over the third party users of system administration accounts, there is an inherent risk of unauthorised or inappropriate changes to the underlying data)
- weak password configuration settings for Oracle Fusion (a lack of robust password setting may allow financial information to be compromised by unauthorised users. In particular short passwords can be easily guessed, passwords tend to become known by other users if they are in continued use over a long period of time, if password complexity is not configured, users will tend to choose simple guessable words as their passwords and if password history is not maintained, a user may recycle the same password over a long period)
- inadequate controls over batch job management in Oracle Fusion (IT operational processes and control requirements may not be communicated to or understood by those within the organisation responsible for observing and/or implementing them. A lack of consistent application of IT operational processes and controls could lead to a loss of data integrity, processing integrity and/or system down-time)

#### We recommend the following:

- management should review the Evosys users with privileged access to Oracle Identity Cloud Service (IDCS). Any users that do not require these functions should have this level of access removed. For those users that do not require this access, especially those outside IT, consideration should be given to the risk created and whether additional compensatory controls (i.e., high-risk activity monitoring) are required.
- management should ensure that password settings configured on the Oracle Fusion applications are in line
  with the organisation's password policy. Password parameters for Oracle Fusion should be configured to
  meet best practice guidelines which are minimum password length of 10 characters or above and storing 8
  recent passwords. Where configuration settings cannot be strengthened due to system limitations,
  management should undertake risk assessment and implement additional compensating controls.
- management should ensure that comprehensive IT operations and governance policies and procedures are documented and approved at the appropriate level. Management should implement a formal process for monitoring and corrective action taken in case of errors recorded for the batch job.

#### Management response

- During this period the Council were still implementing the system and Evosys consultants required access for development and hypercare. This access is now restricted with the exception of managing PAAS integrations and incident support. The Council closely monitors access to all production systems and only grant Evosys developers access as they need it. They currently have access as part of implementing ORC. Once this work is complete this access will be revoked. As stated, before they do need access to IDCS to manage PAAS elements, some of this can be eliminated through configuration changes which will be identified and implemented.
- As access to the Fusion production environment is via Active Directory there is no password required however the passwords required for non-production environments, which a limited number of people have access to, will be changed to reflect LCC's policy.
- Batch jobs are monitored and managed by the users who have initiated them. The users get notification on job failure. The formal process is the same as any other incident, the user submits a Freshdesk ticket and Sys Admin investigate. Fusion is a lot less overnight batch process focused. Evosys have monitoring ETLs between fusion and PAAS on their side which are nearer to batch processes. We are investigating whether we can automate the generation of support tickets for when those generic batches fail to aid early detection.

#### Controls

- High Significant effect on financial statements
- Medium Limited Effect on financial statements
- Low Best practice

## **B. Follow up of prior year recommendations**

We identified the following	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
issues in the audit of Leicestershire County Council Pension Fund's 2020/21 financial statements, which resulted in 2 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note 1 is still to be completed.	4	Inappropriate segregation of duties as developers have access to the production environment	Evosys users now only use their accounts on a read-only access capacity. Therefore, these users are not assigned with ability to implement changes within production.
		The combination of access to develop and implement those changes in the production environment creates a risk that inappropriate or unauthorised changes are made to data and/or programs.	
	~	Pension Fund Annual Report We identified some "must do" requirements as set out in the CIPFA guidance – "Preparing the annual report – Guidance for Local Government Pension Scheme Fund (2019 Edition) which had not been included in the 2020/21 Pension Fund Annual Report.	All "must do" requirements have been included in the 2021/22 annual report.

#### Assessment

✓ Action completed

X Not yet addressed

### **C. Audit Adjustments**

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

#### Impact of adjusted misstatements

There were adjustments made that we are required to report.

#### Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Note 12 investments	We noted that "Ruffer Protection Strategies International - Derivatives - Options" pooled investment vehicle was incorrectly classified as derivatives. The value of the fund at year end was £8.46m.	Х
	Management response	
	We discussed this a couple of years ago with GT and the advise was to leave as an equity based derivative rather than pooled fund due to the underlying nature of assets in the fund. We are happy to review this again for 22/23 statements but we are not intending to change the statements this year.	
Note 3 critical judgments in applying accounting policies	Previously disclosed critical judgments on the pension fund liability and investments in the LGPS Central asset pool were removed noting that these were not deemed critical judgments. Further the critical judgement on directly held property was moved to note 2 due to it being an accounting policy rather than a critical judgement.	~
Note 20 valuation of financial instruments carried at fair value	The description for level 1 assets was updated to specify that it includes quoted pooled investment vehicles. Previously reference was made to the underlying assets within said pooled investment vehicles noting that the Pension Fund should look at asset which it invests in and not the asset's underlying assets.	~
Note 20 valuation of financial instruments carried at fair value	For assets which are recognised at fair value at year-end, the basis of valuation, observable and unobservable inputs and key sensitivities affecting the valuations provided were not disclosed as required by the Code.	~

### **C. Audit Adjustments**

Disclosure omission	Auditor recommendations	Adjusted?
Note 20 valuation of financial instruments carried at fair value	As required by the Code, a reconciliation of movements within level 3 assets between the opening and closing balance was not disclosed.	√
Note 20 valuation of financial instruments carried at fair value	As required by the Code, sensitivity of assets valued at level 3 was not disclosed. The specific assumptions that give rise to the estimation uncertainty were also not disclosed.	~
Note 20 valuation of financial instruments carried at fair value	The Pension Fund's accounting policy on cash and cash equivalents states that "cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. Cash equivalents are short term, highly liquid investments that are readily convertible to know amounts of cash and that are subject to minimal risk of changes in value". We note that the Pension Fund's cash of £187.1m which is recognised at amortised cost was erroneously included in the fair value hierarchy as a level 1 asset.	~
Note 23 nature and extent of risks arising from financial instruments (interest rate risk)	The Pension Fund's exposure to interest rate risk on interest receivable during the financial year was not disclosed.	√
Note 23 nature and extent of risks arising from financial instruments (currency risk)	The disclosure was previously based on the underlying assets of the Pension Fund's directly held assets. The purpose of the disclosure is to reflect the potential movement in investment asset valuations from foreign exchange fluctuations which losses and gains would be recognised in the Fund Account.	1
Note 24 related party transactions	As Leicestershire County Council is a related body, the disclosure of transactions with the Pension Fund and balances outstanding was not included in the financial statements.	~
Note 25A key management personnel	The note did not include members' allowances and officers' remuneration reflecting the cost associated with key management personnel carrying on their mandated responsibilities for the Pension Fund.	~
Actuarial disclosures	IAS 26 requires the actuarial present value of promised retirement benefits to be disclosed. It gives 3 options noting that the Pension Fund selected option C which follows that the Pension Fund should make reference to this information in an accompanying actuarial report which should not form part of the statement of accounts. Prior to correction, the actuarial report had been reported as forming part of the statement of accounts thus suggesting option B (where the present value of promised benefits is disclosed in the notes to the accounts). As the actuarial report obtained was consistent with option C it meant that disclosures were inadequate.	√
Note 6 contributions	<ul> <li>The Code requires disclosure of a breakdown of contributions by the administering authority, scheduled bodies and admitted bodies. As parties of our audit procedures we identified that the totals per the detailed listing of contributions for Leicestershire County Council and Schedules bodies was misstated by £10.4m which amount was subsequently corrected by management.</li> <li>Leicestershire County Council (previously understated by £10.4m)</li> <li>Scheduled bodies (previously overstated by £10.4m)</li> </ul>	~

## **C. Audit Adjustments**



#### Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Corporate Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

-7,951	7,951	7,951	Not material
-7,951			
-£7,951	£7,951	£7,951	
	-£7,951	-£7,951 £7,951	-£7,951 £7,951 £7,951

#### Impact of prior year unadjusted misstatements

There were no unadjusted misstatements.

## **D. Fees**

**Audit fees** 

Pension Fund Audit

We confirm below our final fees charged for the audit and provision of non-audit services.

Details of variations in final fees from the proposed fee per the audit plan

The fees reconcile to the financial

statements.

**Final fee** 

33,193

Non-qudit food for other convision	Drepend for	Final foo
otal audit fees (excluding VAT)	£33,193	£33,193
	000 100	000 100

**Proposed fee** 

33,193

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Other [IAS 19 Assurances]	17,000	17,000
Total non-audit fees (excluding VAT)	£17,000	£17,000

### **D. Fee breakdown**

Audit fees	Estimated fee
Scale fee	21,280
Raising the bar/Additional regulation	3,125
Pension level 3 valuations	2,188
ISA 540	3,600
Additional journals testing	2000
Derivatives, errors and misclassification reviews	1,000
Estimated fee	33,193



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Grant Thornton UK LLP 17<sup>th</sup> Floor 103 Colmore Row Birmingham B3 3AG



Date: 16 March 2023 My Ref: Your Ref: Contact: Chris Tambini Phone: 0116 3056199 Fax: Email: Chris.Tambini@leics.gov.uk

**Dear Sirs** 

#### Leicestershire County Council

#### Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Leicestershire County Council for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include valuations of land and buildings and defined benefit scheme valuations. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally

#### **Corporate Resources**

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

Chris Tambini, Director of Corporate Resources

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valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Council has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as[they are immaterial to the results of the Council and its financial position at the yearend. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. The prior period adjustments disclosed in Note 8 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.
- xv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
  - a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements



- b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
- c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

xvi. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.

#### **Information Provided**

- xvii. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. access to persons within the Council via remote arrangements from whom you determined it necessary to obtain audit evidence.
- xviii. We have communicated to you all deficiencies in internal control of which management is aware.
- xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiv. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

#### **Annual Governance Statement**

xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.



#### **Narrative Report**

xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

#### Approval

The approval of this letter of representation was minuted by the Council's Corporate Governance Committee at its meeting on 16 March 2022.

Yours faithfully

Chris Tambini Director of Corporate Resources, Leicestershire County Council 16 March 2023

Chairman of the Corporate Governance Committee 16 March 2023

(Signed on behalf of the Corporate Governance Committee)



Date: 16 March 2023 My Ref: Your Ref: Contact: Chris Tambini Phone: 0116 3056199 Fax: Email: Chris.Tambini@leics.gov.uk

Grant Thornton UK LLP 17<sup>th</sup> Floor 103 Colmore Row Birmingham B3 3AG

Dear Sirs

#### Leicestershire County Council Pension Fund Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Leicestershire County Council Pension Fund for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of level 3 investments and valuation of property. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities include identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve

#### **Corporate Resources**

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Chris Tambini, Director of Corporate Resources

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recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

- vi. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Fund has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- x. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
  - a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
  - b. the financial reporting framework permits the Fund to prepare its financial statements on the basis of the presumption set out under a) above; and
  - c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.



#### Information Provided

xiv. We have provided you with:

- a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- b. additional information that you have requested from us for the purpose of your audit; and
- c. access to persons within the Fund via remote arrangements from whom you determined it necessary to obtain audit evidence.
- xv. We have communicated to you all deficiencies in internal control of which management is aware.
- xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xvii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xx. We have disclosed to you all known instances of non-compliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxi. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.
- xxii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.
- xxiii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.
- xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

#### Approval

The approval of this letter of representation was minuted by the Fund's Corporate Governance Committee at its meeting on 16 March 2023.



Yours faithfully

Signed on behalf of the Fund

Chris Tambini Director of Corporate Resources, Leicestershire County Council 16 March 2023

Chairman of the Corporate Governance Committee 16 March 2023

(Signed on behalf of Leicestershire County Council as administering body of the Leicestershire County Council Pension Fund)



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## **Auditor's Annual Report**

## Leicestershire County Council

2021/22

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Section

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## **Executive summary**



#### Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment 2021/22 Auditor Judgment		22 Auditor Judgment	<b>Direction of travel</b>	
Financial sustainability	Risk of significant weakness identified		No significant weaknesses in arrangements identified, but one improvement recommendation made		No significant weaknesses in arrangements identified, but two improvement recommendations made.	Ļ
Governance	No risks of significant weakness identified		No significant weaknesses in arrangements identified, but two improvement recommendation made		No significant weaknesses in arrangements identified, but three improvement recommendations made.	$ \longleftrightarrow $
Improving economy, efficiency and effectiveness	No risks of significant weakness identified		No significant weaknesses in arrangements identified, but five improvement recommendations made		No significant weaknesses in arrangements identified, but two improvement recommendations made	1



No significant weaknesses in arrangements identified or improvement recommendation made.

No significant weaknesses in arrangements identified, but improvement recommendations made.

Significant weaknesses in arrangements identified and key recommendations made.

## **Executive summary**

#### Financial sustainability

Leicestershire County Council has a good track record of sound financial management. We are satisfied that the Council had appropriate arrangements in place to manage the financial resilience risks it faced with regard to budget setting and the medium term financial plan during 2021/22. We note that there remains uncertainty around the plans to mitigate the funding gaps in future years. The Council will need to ensure it can provide assurance of its ability to plan and deliver on its savings plans.

We also note that the Council has a significant Dedicated Schools Grant (DSG) deficit. The Council will need to ensure it takes appropriate actions to reduce its cumulative SEN deficit



We have not yet completed our audit of your financial statements. We anticipate completing our audit in February 2023.



#### Governance

Leicestershire County Council has a clear governance framework in place which includes a documented Risk Management Strategy and robust budget setting an monitoring procedures. We have not identified any areas of significant weakness in the Council's arrangements with regard to managing risk, setting ethical standards, internal control and decision making. We have made some improvement recommendations to assist the Council in developing and embedding its arrangements.

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#### Improving economy, efficiency and effectiveness

Leicestershire County Council has a well developed performance management framework in place which provides clear and succinct reporting to members. We have not identified any areas of significant weakness in arrangements with regard to improving economy, efficiency and effectiveness. We have made two improvement recommendation.

We have also provided information from our benchmarking exercise.



# **Opinion on the financial statements and use of auditor's powers**

#### We bring the following matters to your attention:

Opinion on the financial statements	We have completed our audit of your financial	
Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22	nether they : (i) present a true and fair statements. We anticipate issuing an unmodified opinion in March 2023	
Statutory recommendations	Provide brief details of what was issued and why.	
Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	We did not issue any statutory recommendations.	
Public Interest Report	Provide brief details of what was issued and why.	
Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a Public Interest Report.	
Application to the Court	We did not apply to Court.	
Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.		
Advisory notice	We did not issue an Advisory notice.	
Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:		
• is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,		
• is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or		
• is about to enter an item of account, the entry of which is unlawful.		
Judicial review	We did not apply for a judicial review.	
Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.		

# Securing economy, efficiency and effectiveness in the Council's use of

## resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



#### **Financial Sustainability**

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



#### Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



#### Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 31. Further detail on how we approached our work is included in Appendix B.





#### We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

#### Outturn 2021/222

The County Council is operating in an extremely challenging financial environment following a decade of austerity and spending pressures, particularly from social care and special education needs. The financial position in 2020/21 and 2021/22 has been severely affected by Covid-19 and the on-going financial impacts of the pandemic are still not fully understood. Despite these pressures, the Council has continued to manage its financial position and deliver a balanced outturn. The County Council approved the 2021/22 to 2024/25 Medium Term Financial Strategy (MTFS) in February 2021. The outturn position at 31<sup>st</sup> March 2022 is an underspend of £7.9 million against a total net revenue budget of £399 million, that is approximately -2% variance.

There were significant budget overspends within Adults and Communities in 202122, which were further exacerbated by the ongoing impact of Covid-19 on demand led commissioned:

- Residential Care and Nursing overspend £11.7 million. This comprises:
  - Residential Care expenditure: £10.4 million.
  - Residential Care Income reduction: £1.3 million.
- Homecare overspend £8.7 million.
- Supported Living overspend £5.7 million.

We noted that the ongoing impact of Covid-19 on demand led services is being validated and reviews of high-cost packages will continue to be undertaken.

Overspends within the total outturn were offset by additional grant funding and underspends across the Council. Children and Family Services Local authority budget reported an underspent position of net £3.7 million (net) which is equivalent to 4% on the revenue budget for 2021/22.

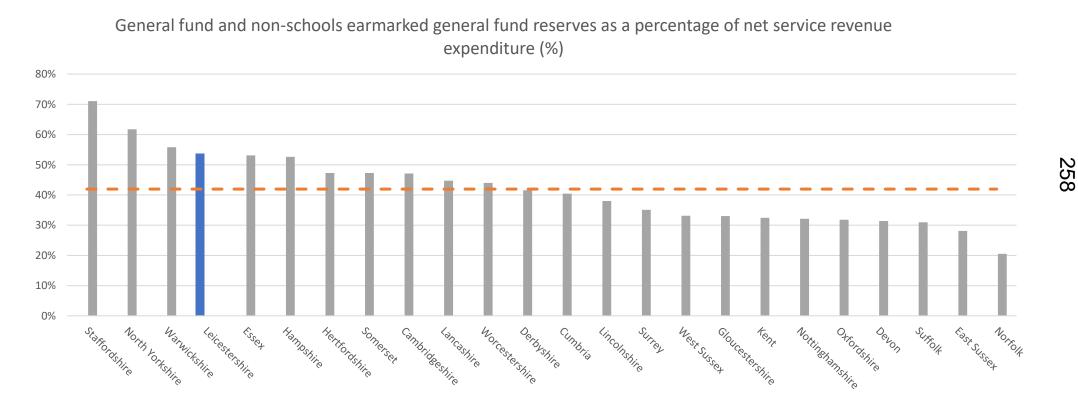
The £7.9 million underspend will be utilised in the following way:

- Increasing the budget equalisation reserve for Early Years by £3.6 million
- Allocating additional £1.1 million to the Transformation fund and
- Providing an increased inflation risk provision of £3.224 million.

The General Fund Reserve stands at £18 million as at 31st March 2022, which represents 3.8% of the 2022/23 revenue budget, in line with the Council's earmarked funds policy and the MTFS approved in February 2022. The Council plans to increase the General Fund to £22 million by the end of 2025/26 to reflect increasing uncertainty and risks over the medium term and growth in the Council's budget.

At 31<sup>st</sup> March 2022, the total level of General Fund and non schools earmarked reserves was £242.5 million. Using data from the 2021/22 statement of accounts, we have calculated the total level of General Fund and non-schools earmarked reserves to be 54% of net revenue budget. We have compared this data against other County Councils for information as shown in the table of the following page.

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In providing this benchmarking data, it should be noted that the General Fund and non schools earmarked reserves total of £242.5 million includes committed reserves for example the capital financing (revenue) reserve at £111 million which is used to manage the timing of funds; slippage on capital schemes, the efficient management of maximising the use of other restricted capital funding, e.g. capital grants, s106s etc before applying revenue contributions to fund the capital programme. The fund is also used to hold one off balances that have been earmarked to fund, (and are included) against the approved four year capital programme (invest to save) to reduce and delay the need for borrowing.

#### Medium Term Financial Strategy (MTFS)

The Council has a robust organisational approach to setting the annual budget, The MTFS is a rolling financial plan that is updated annually utilising the prior year budget assumptions and updating for known changes in expenditure and funding. This roll forward approach is a well-established methodology applied at the Council and across the sector.

There is good Member engagement during the budget setting process, with Member budget briefings and review of budget proposals by the Scrutiny Committees.

The financial planning undertaken demonstrates a prudent approach, with a recognition that future funding levels and demand remain uncertain. The Council therefore ensures that financial plans are constantly kept under review, with regular updates to Cabinet on its current position, emerging risks and forecast position.

Financial planning assumptions are set out and updated through the MTFS and considered by Members as part of the budget setting process. Assumptions include treatment of key expenditure drivers such as the pay award, inflation, and demographic and demand changes which are particularly acute in Adult's and Children's Services.

The MTFS clearly demonstrates its consideration of external pressures such as national funding changes, inflationary changes and service demand adjustments in addition to internal risks such as the achievement of savings.

The Council also has a well-established risk management strategy in place to identify financial and other risks. The MTFS is transparent and detailed on the risks facing the Council in both the short and medium term, as demonstrated in its reporting to Cabinet. Therefore members have a realistic picture of the pressures the Council is facing for future financial years.

In February 2022, Cabinet approved the Leicestershire County Council four year MTFS to 2024/25, which incorporates a revenue budget for 2022/23 totalling £471.7 million. The MTFS provided a balanced budget in 2022/23 based on a council tax increase of 2.99% and a savings requirement of £17.6 million.

Delivery of the MTFS requires total savings of £80 million to be made between 2022 and 2026. For 2023/24 the initial plan estimates a funding gap of £8 million after a savings requirement of £10.5 million, rising to a gap of £23.9 million in 2024/25 and £39.5 million gap in 2025/26.

In September 2022, the Council reported on its worsening short and medium term financial position in light of the economic climate and in particular rising rate of inflation. The MTFS anticipated a funding gap of £8 million in 2023/24 rising to £40 million by 2025/26, despite savings of £54 million being targeted. An initial review of the position in light of the emerging inflation levels suggested there was also a potential further funding gap of £3 million in 2022/23 and an increased gap of £28 million in 2023/24 rising to £71 million by 2025/26, as reported to Cabinet in June 2022.

The report highlighted that if Government support is not forthcoming the County Council's budget gap could even pass £135 million by 2026. It is inevitable that the £54 million of savings planned will have to increase significantly.

On 17<sup>th</sup> November 2022 the Chancellor of the Exchequer delivered the 2022 Autumn Statement. The draft Leicestershire County Council MTFS 2023/24 to 2025/26 was presented to Cabinet on 16<sup>th</sup> December. With increases in Council Tax and additional Government funding, the estimated £28 million funding gap in 2023/24 is now mitigated and the plan is presented with a balanced position, with a savings requirement of £13.3 million.

While the MTFS shows a balanced position for 2023/24, we note the ongoing challenging position the Council faces, with estimated shortfalls of £17 million in 2024/25 rising to £92m in 2026/27. There is a range of initiatives currently being developed by the Council aimed to bridge the gap. It is clear that significant additional savings will still be required on top of the £38.2 million that have been identified, £13.3 million of which are to be made in 2023/24. The Council is aware of this and a new MTFS including actions to address these shortfalls will be reported to Cabinet in February 2023.

The Council is not an outlier in its current position. However, Leicestershire remains the lowest funded county in the country which means that the Council's financial position continues to be extremely challenging. We have not reported a risk of significant weakness, the Council is well managed and has good arrangements in place for identifying current and future savings. However the MTFS funding gap in future years shows a significant increase, we have therefore included an improvement recommendation in recognition of the challenge the Council is facing.

See improvement recommendation 1.

#### Medium Term Financial Strategy (MTFs)

As part of our planning work, we concluded there was a risk of significant weakness in arrangements for delivering financial sustainability:

- Identification of future savings: adequacy of the arrangements for identification of future savings to enable a balanced financial position to be delivered beyond 2022/23.
- Impact of pay and price inflation and demand pressures: the ability of the Council to adapt financial plans and secure savings required to counter the impact of price and pay inflation and demand pressures.

We have reviewed and considered the Council's arrangements in place during the year for monitoring and reporting on its short and medium term financial position. We noted that reporting has provided a clear and robust overview of its current and future position, including:

- the impact of the economic climate and in particular the rising rate of inflation;
- the arrangements and identification of future savings;
- plans for mitigating financial risk; and
- forecast outturn position and plans for delivering a balanced year end position.

At period 4, the Council was reporting a net forecast overspend of £13.6 million. The period 6 revenue budget monitoring exercise showed a net projected overspend of £8.5 million.

The 2022/23 outturn position is planned to be closed by the use of the MTFS Risks Contingency ( $\pounds$ 8m) and the balance being found from a combination of:

- review of reserves (including £3.1m set aside in the 2021/22 accounts towards inflation pressures);
- Introduction of spend controls; and
- restriction on inflation allocations to areas that could reduce the level of service provision

From our work carried out we have concluded that, in general, there are plans in place to address the funding gap for 2022/23 and beyond. We have therefore not reported a significant weakness within our report, in respect of those risks identified at the planning stage of our work.



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#### Dedicated schools grant

The overall DSG deficit is £24 million, an increase of £13 million from the start of the year. The main reason for the deficit is the significant pressures on SEND. The SEN High Needs Block budget remains under significant pressure, with an in year deficit of £11.2 million for 2021/22 against the budget of £82,805; a variance of 13.6%. The cumulative deficit at the end of 2021/22 was £29 million which is forecast to increase to £40 million by the end of 2022/23 and significantly more in later years. This is a major pressure for the County Council, and whilst the majority of Local Authorities are also in deficit, the pressure has been growing at a faster rate in Leicestershire than in many other areas. The increase in demand is also resulting in higher expenditure on the SEND home to school transport budget. The Authority is also experiencing an increasing number of appeals and complaints.

The Authority has been invited to join a Department for Education (DfE) initiative along with 54 other local authorities. The Delivering Better Value in SEND programme has been set up by the DfE to support authorities such as Leicestershire to reduce deficits. The DfE also run a 'safety valve' programme for those authorities with higher deficits.

Nationally there is significant concerns about the sustainability of SEND services, the DfE's intention is to address issues within the SEND Green Paper but this has seen significant delays and has yet to report on actions to be taken following its consultation.

The DfE's three tiered intervention programme for LA's with DSG Deficits chooses the authorities entering into them based upon the DSG deficit expressed as a percentage of the total DSG. The authorities with the highest deficits enter the Safety Valve Programme, a further 55 authorities have been invited into the second level of intervention actions through the Delivering Better Value in SEND Programme and Leicestershire is in Tranche 1 of the programme. The DfE had invited Leicestershire to Tranche 2 of the programme but following discussions it has been possible to accelerate involvement to the earlier Tranche.

Leicestershire engaged Newton Europe to undertake a Diagnostic view of the High Needs position in January 2022. Following this and a competitive tender process, they have been engaged as a Strategic partner to deliver an ambitious programme of SEND reform through the Transforming Special Needs and Inclusion in Leicestershire (TSIL) Programme. The TSIL is a wide ranging and ambitious programme of reform which has been reported through Cabinet and Scrutiny, a programme update is due at Scrutiny in March 2023 and a highlight report is provided to each. It is subject to robust governance through a range of groups – Benefits Monitoring Group, Benefits Monitoring Board, Core Steering Group, Programme Delivery Board, Contract Monitoring Board and Strategic Investment and Direction Board. Boards are chaired by a wide range of officers including the Director of Children and Family Services and the Director of Resources. Highlight reports are also presented to the Transformation Delivery Board.

The programme is supported by a Project Management Office provided through the Transformation Unit and resource with a wide range of officers from the Transformation Unit, Corporate Resources and Children and Family Services.

We acknowledge that there is an extensive work programme in place to address the deficit position, including regular contact and liaison with the DfE and DLUHC about SEN funding.

We have not raised a significant weakness in this area, but do consider this to be a risk to the future financial sustainability of the Council. The Council must ensure that the initiatives being undertaken are sufficient to address the scale of the issue and ensure that any proposed changes are implemented successfully.

See improvement recommendation 2.



#### **Efficiency Savings**

We concluded that the Council has good arrangements in place for identifying current and future savings. Savings are worked through at both a directorate and executive level. "Savings Under Development" are included as an appendix to the MTFS which provides a full overview of potential savings schemes which may later be realised into actual savings plans. Savings Under Development are discussed through meetings between members and chief officers to assess their acceptability and whether these should be taken forward.

Oversight and monitoring of savings is provided by the Transformation Delivery Board (TDB). Our review of a sample of TDB papers confirmed the process in place with detailed information on the current and forecast position of the savings plan, in totality and broken down into individual schemes, with supporting narrative of any variance to plan.

The Council has a good track record of delivering savings. In February 2021, Cabinet approved the Leicestershire County Council four year MTFS to which incorporates a savings requirement of £9.4 million. For 2021/22 From review of the outturn savings plan we noted that the Council over-achieved on its savings plan for 2021/22 with a net outturn realisation of £10.2 million against the planned £9.4 million. For 2022/23 (as at period 7) the forecast at year end is an under delivery of £3m.

Delivery of the MTFS in future years is reliant on an increasingly challenging savings requirement. in addition to estimated funding gaps in place, the challenge facing the council is significant. The table below provides an overview of the worsening position in future years:

£million	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Source	2021/22 – 2024/5 MTFS	2022/23 - 2025/26 MTFS		Draft 2023/24 -	- 2026/27 MTFS	
Savings Plan	9.395	17.750	13.330	24.440	31.525	38.165
MTFS Shortfall (Funding Gap)	0	0	0	16.605	53.590	91.770
TOTAL Savings Required (Excluding DSG)	9.395	17.750	13.330	41.045	85.115	129.935

We have not reported a significant weakness in arrangements for 2021/22 as the savings plan was delivered. We have made an improvement recommendation to ensure savings plans continue to be robust in meeting the future funding challenges and will consider the risk again within our next review.

See improvement recommendation 1.

#### Capital strategy and treasury management

In February 2021, the capital programme expenditure for 2021/22 proposed a total value of £125 million of works, maintaining a four year capital programme in the region of £450 million. The updated capital programme for 2021/22 totals £119m. This follows a review of the programme undertaken in July 2021 and approved by the Cabinet in September 2021.

The capital outturn for 2021/22 shows that overall there has been a net underspend of £36.4m compared with the updated budget. The most significant slippage being noted within the delivery of Environment and Transport schemes to the value of £20.3 million.

The net slippage will be carried forward to 2022/23 and future years to fund schemes that were not completed in 2021/22, with the net underspend added to the capital financing earmarked fund.

We note that it is not unusual to see significant slippage in the capital programme during the year and acknowledge that the Council plans to complete a review of the 2022-26 capital programme in light of delays to project delivery and emerging financial pressures (due to increasing costs of raw materials and inflation).

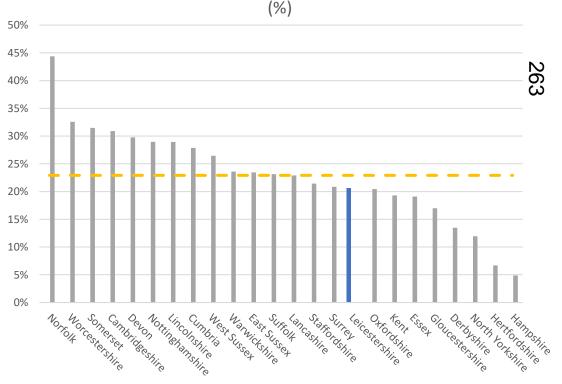
From our review of Committee papers, we can confirm there is regular and robust reporting and oversight of progress, position and emerging risks to the programme.

The capital financing requirement (CFR) measures the Authority's need to borrow for capital purposes. The total of non-current assets as at 31<sup>st</sup> March 2022 was £1.3 billion (as at 31<sup>st</sup> March 2021 £1.2 billion). The CFR was £214 million as at 31<sup>st</sup> March 2022 (£232 million as at 31<sup>st</sup> March 2021) and actual debt was £263 million as at 31<sup>st</sup> March 2022 (£263 million as at 31<sup>st</sup> March 2021). The difference between the CFR and the actual debt is a temporary overborrowed position, pending the repayment of debt. During 2021/22 no external loans were raised (£0 million 2020/21). We note that the overborrowed position is due to the Council not increasing its CFR for over a decade and changes in government policy to fund supported capital with grant payments, meaning that MRP is reducing the CFR and no additional borrowing by the Council. In addition the council has overpaid MRP voluntarily over the last decade by a total of over £60 million which has also reduced the CFR. The Council has also confirmed that due to the loan periods remaining that there are no meaningful opportunities to repay debt early.

We confirmed that the level of capital borrowing is within the Authority's 2021/22 Prudential Indicators that inform the Authority whether its capital investment plans are affordable, prudent and sustainable.

From our benchmarking carried out we noted that Leicestershire County Council, at 21%, is below average in terms of its levels of debt in comparison to other county council peers, ranking 16<sup>th</sup> out of 24 for borrowing as a proportion of long term assets. The Average long term borrowing as a proportion of long-term assets is 23%:

## Long-term borrowing as a proportion of Long-term assets



### Financial sustainability

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Improvement Recommendation 1	<ul> <li>The Council should develop and implement:</li> <li>Mitigating actions to address the budget funding gaps identified in years 2024/25 to 2026/27.</li> <li>Robust savings plans which meet the future funding challenges.</li> </ul>
Why/impact	Reducing spend and protecting reserves is important to ensure that the Council maintains financial sustainability in the longer term.
Summary findings	Revenue monitoring identifies significant pressures to the 2022/23 budget, the forecast overspend reported at period 6 was £6.1m which is expected to reduce further as the Council gets closer to year end and estimates are firmed up. Any remaining gap will be funded by the MTFS risks contingency, set aside at £8m.
	While the draft 2023/24 – 2025/26 MTFS shows a balanced position for 2023/24, we note the ongoing challenging position the Council faces, with estimated shortfalls of £17 million in 2024/25 rising to £92m in 2026/27. It is clear that significant additional savings will still be required on top of the £38.2 million that have been identified, £13.3 million of which are to be made in 2023/24.
Management Comments	The budget for 2023/24 is balanced. The budget for later years is being updated post the Local Government settlement December 2022. This shows a slightly improved position, and will be reported to the Cabinet in February 2023. The new MTFS includes actions to address the remaining budget shortfalls.



### Financial sustainability

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#### Improvement Recommendation 2

The Council should take appropriate actions to reduce its cumulative SEND deficit and ensure that the initiatives being undertaken are sufficient to address the scale of the issue and ensure that any proposed changes are implemented successfully.

Why/impact	Reducing spend is important to ensure that the Council maintains financial sustainability in the longer term.
Summary findings	The DSG reserve has a deficit of £24 million as at 31 <sup>st</sup> March 2022, an increase of £13 million since the start of the year. This is due to an increase in the SEND costs as part of the high needs block within the DSG reserve. The SEND budget remains under significant pressure with an in year deficit of £11 million for 2021/22 and a cumulative deficit of £29 million which is forecast to increase significantly in later years.
Management Comments	Leicestershire engaged Newton Europe to undertake a Diagnostic view of the High Needs position in January 2022. Following this and a competitive tender process they have been engaged as a Strategic partner to deliver an ambitious programme of SEND reform through the Transforming Special Needs and Inclusion in Leicestershire (TSIL) Programme.





#### We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

#### **Risk Management**

High level responsibilities for managing risk are documented within the Authority's Constitution, which delegates responsibility to the Corporate Governance Committee (CGC) to ensure "that an adequate risk management framework and associated control environment is in place".

Oversight and day to day operational management is provided by the Internal Audit Team. Ensuring there are appropriate arrangements in place is a key part of compliance with the Pubic Sector Internal Audit Standards, however from discussion with key officers we noted that there had not been a review of the Risk Management Framework undertaken in the last three years. We did note that there has been a recent recruitment to the team who will be responsible for leading on risk in addition to carrying out Internal Audit duties. Initially it was planned for the officer to complete an Internal Audit review of the arrangements in place for managing risk, however, the council will need to ensure that this review is carried out by an independent officer not involved with the process.

See improvement recommendation 3

The operational arrangements for managing risks are underpinned by a Risk Management Policy Statement and Strategy which clearly documents roles and responsibilities for managing risk across the Council. The Strategy is reviewed on an annual basis and approved by Corporate Governance Committee. This is also provided as an appendix to support the MTFP.

Our review of the Strategy did not identify any gaps in arrangements, we found that it includes the key elements for a robust approach to managing risk at all levels across the Authority, including:

- Risk Management Policy Statement, signed by the Chief Executive.
- Risk Appetite, which is currently defined as "Open" which means that the Council is prepared to consider all delivery options and select those with the highest probability of productive outcomes even where there are elevated levels of associated risk. (supported by caveats of specific circumstances where this may not be appropriate).
- Risk Management Approach and Process,
- Monitoring & Reporting requirements, and
- Escalation of risk.

The Strategy is supported by a standard scoring methodology, with visual flowcharts and appendices to provide further procedural guidance.

Risk impact domains include reputation, people, operations and finance etc however, we did note that environmental impact is not currently included as an impact measurement criteria, although climate change risks have been identified and included within the Corporate Risk Register. Given the importance of the environmental agenda the Council should consider including Environmental Impact within the risk impact measurement criteria.

See improvement recommendation 4

#### **Risk Management - continued**

Risk Champions have been nominated within each Department and are responsible for maintaining the departmental risk register. The Head of Internal Audit provides oversight; meeting with each champion and discussing any update to those risks registered within the Corporate Risk Register for upward reporting. Corporate Management Team has oversight of corporate risks and upwards assurance reporting is provided through Corporate Governance Committee.

There is also wider Risk Management Group that includes the Head of Internal Audit, representative form Insurance and Risk Champions for each of the six departments. However we were informed that this group has not met since pre-covid and will be re-started once the new risk lead is post.

See improvement recommendation 4

#### Risk Reporting

Risk Management Update reports are presented at each meeting of the CGC enabling the Committee to discharge its duties for ensuring that the Council has effective risk management arrangements in place. Our review of a sample of reports confirmed that they include a good level of detail with an overview of changes since the last update. The update is complimented by the Corporate Risk Register (CRR).

#### **Risk Registers**

The Council maintains Departmental Risk Registers and (CRR). These registers contain the most significant risks which the Council is managing, and which are 'owned' by Directors and Assistant Directors.

From our review of the CRR we noted that risks are clearly articulated, the current score is recorded and any updates or notes arising from discussions with departmental risk champions as part of the oversight and monitoring process. The register also includes a predicted direction of travel over the next 12 months. The report indicates that this is based on the residual risk score. However the report does not document what the target score of the risk; target scores, linked to the Council's Risk appetite, enable the reader to gain assurance that the actions being taken to mitigate the risk are appropriate.

See improvement recommendation 4

We also noted that, although there is an update of actions being taken, the register does not identify what controls are in place to mitigate risks, the assurances received or required and any gaps that need addressing. Actions to address any gaps should be clearly aligned and reference SMART principles. We do acknowledge that on an annual basis, the Corporate Governance Committee receive a full copy of a combined register extracted from department registers containing the information.

See improvement recommendation 4.

Departmental Risk Registers are also maintained. On the whole these are spreadsheet based, however we noted that one Department - Environment and Transport adopted the Pentana Risk system. There has been an attempt to roll out and embed the system further however this has not been supported by all Departments due to the costs involved and resource requirements in building and maintaining the system. This has led to an inconsistent approach to managing risk at a departmental level.

Manual spreadsheets carry a greater risk of loss of data or error. In addition to greater security, the system provides improved reporting and monitoring opportunities, with the ability to report across themes and departments, identifying and reporting on high risks while providing a view of the risk profile across the whole Council.



#### Internal Audit & Counter Fraud

The Council's Internal Audit and Counter Fraud Service are provided by Leicestershire County Council's in house Internal Audit Service. From discussion with the Head of Internal Audit (HOIA), Monitoring Officer and Chair of the Audit Committee, all are satisfied there is an effective Internal Audit Service in place.

In June 2021, a report was presented to CGC outlining the methodology for developing the Internal Audit Plan for 2021-22. Following the impact of the pandemic and the need to be more flexible, the decision was taken to implement the plan to cover two six monthly periods during the year. The list of planned internal audit reviews April – September 2021 was approved by CGC in July 2021 and September to March 2022 in November 2021. However, while narrative of the plan was included within the committee overview report, A full Plan and Three Year Strategy, support by its Internal Audit Charter was not included.

#### See improvement recommendation 5

Progress against the plan is reported to each meeting of the CGC. The update is supported by an overview of the plan with detail of the current status of each review and the outcome or opinion.

The progress reports also provides information in respect of the implementation of High Importance recommendations. Our review of this information confirmed that the Council are generally robust in implementing actions, and where needed ensuring there are revised due dates in place.

The Council's financial systems are provided by the East Midlands Shared Service (EMSS). Internal audit activity for EMSS is the responsibility of the Head of Internal Audit (HOIA) at Nottingham City Council. During the year the Council receives third party assurance in respect of payroll, accounts receivable, accounts payable, and IT – System Admin and access controls. We noted that the Council has received reduced levels of assurance for 2021/22 which has been largely due to issues with the IT system implementation. However we did note that the Council has requested a further review of the service and oversight is reported through the EMSS Joint Committee.

The HOIA Annual report was presented to CGC in May 2022. The report notes that three audits returned partial assurance ratings, and there were some minor fraud investigations, but management accepted and responded to recommendations. Overall, reasonable assurance is given that the Council's control environment has remained adequate and effective.

Counter Fraud is also provided as part of the Internal Audit Provision. The team includes an auditor who leads on fraud.

Progress reports of Fraud Activity are provided to the CGC as part of the Internal Audit Progress reports.

The Council has a suite of policies in place to manage and mitigate the risk of fraud, these are reviewed and updated on a biennial basis, including, but not limited to:

- Anti Fraud & Corruption Strategy
- Anti Money Laundering Policy
- Whistleblowing Policy and Procedure
- Anti-Bribery Policy Statement and Procedures
- Gifts and Hospitality
- Declaration of Interests
- Prevention of the Facilitation of Tax Evasion
- Code of Conducts for Staff and Members

The team also undertakes a biennial Fraud Risk Assessment which directs the work programme of the team and also take part in the National Fraud Initiative on an annual basis.

#### **Budget Setting and Monitoring**

The Council's Constitution includes that the responsibility for approving the budget sits with full Council. It includes a Budget and Policy Framework Rules which provides an overview of the approval and consultation process.

We have reviewed and considered the arrangements in place for the preparing, approving and monitoring of the 2021/22 budget during what was another difficult year to accurately forecast costs and income due to the ongoing effects of the pandemic, increases in inflation and incremental announcements of government funding. Our review has not identified any risks of significant weakness in the 2021/2022 year

Annual budget setting arrangements are well developed. It is clear that the Council has developed a robust financial planning framework which involves budget monitoring throughout the year to expose pressures, and these are used to help refresh plans.

There is regular dialogue at Department Management Team (DMT) and Corporate Management Team (CMT) with robust oversight and input from members via Scrutiny and Cabinet. There is also clear consideration of the Council's policies including Treasury Management, Capital and Investment Strategies.

#### Informed decision making and compliance with regulatory standards

The Council has in place a Leader / Cabinet model of Governance. The Constitution includes the principles of decision making and the rules, codes and protocols that govern how the Council operates, including Financial Regulations and the Scheme of Delegation. The Constitution also sets out the functions of the statutory posts of Head of Paid Service, Monitoring Officer, Chief Finance Officer and designated Scrutiny Officer.

We confirmed that processes are in place to ensure Cabinet and Executive decisions are appropriate and comply with relevant legal, statutory, regulatory and budgetary requirements. The Council has in place Legal, Democratic Services and Finance teams which are the key "advisors" to ensure decisions taken comply with all necessary statutory requirements and are lawful. All Committee / Cabinet meetings are scheduled well in advance and have in place forward plans to ensure all items of business are included at the right time for meeting any statutory deadlines. Draft papers are received in advance to enable these to be checked by both the Legal and Democratic Teams along with checking by the Monitoring Officer. Specialist reports are discussed with report owners. Standard Committee Report Templates are in place and all officers responsible for producing reports for Committee undertake training which includes specific governance and decision making training. This is commissioned through an external shared specialised training provider.

There is evidence of an appropriate "tone from the top" being set in respect of decision making and ethical behaviour from Senior Officers and Members. Codes of conduct are in place for both Members and officers which are contained within the constitution. All Members are required to declare any interests which are recorded along with a register of any gifts and hospitality which are reviewed regularly.

The Council has in place a Member Conduct Panel which is responsible for considering complaints which have been referred by the Monitoring Officer relating to alleged breaches of the County Council's Members' Code of Conduct.



Governance	
Improvement Recommendation 3	To be fully compliant with the Pubic Sector Internal Audit Standards, the Council should provide assurance on an annual basis that there are robust arrangements in place for managing risk.
	The Council must ensure there is an independent and objective review carried out by somebody not involved with the day to day process.
 Why/impact	Demonstrating there are appropriate arrangements in place for managing risk is a key part of compliance with the Pubic Sector Internal Audit Standards.
 Summary findings	There has not been an Internal Audit Review or the arrangements in place for managing risk undertaken in the last three years.
	We note there has been a recent recruitment to the Internal Audit team who will be responsible for leading on risk in addition to carrying out Internal Audit duties. Initially it was planned for the officer to complete an Internal Audit review of the arrangements in place prior to commencing in the role of managing risk.
 Management	There will be an overall review of the application of the framework either by an auditor (not

There will be an overall review of the application of the framework either by an auditor (not involved in the day to day process) or an external body.



#### The range of recommendations that external auditors can make is explained in Appendix C.

Comments

	Governance	
	Improvement Recommendation 4	To further improve and enhance the risk management framework in place, we recommend the Council: 1. Includes Environmental Impact within the risk impact measurement criteria as part of the
		<ol> <li>Includes Environmental Impact within the risk impact measurement criteria as part of the risk scoring methodology for all risks.</li> </ol>
		2. Re-commence the Risk Management Group meetings as soon as possible.
		3. Includes target risk scores on the Corporate Risk Register.
		4. Documents the controls in place to mitigate risks, the assurances received or required and any gaps that need addressing. Actions to address any gaps should be clearly aligned and reference SMART principles.
		5. Considers the roll out of the use of the Pentana system across all Departments
	Why/impact	To ensure there is robust and consistent approach to managing risk across the Council.
	Summary findings	The Council has good arrangements in place for managing risk. Our findings and recommendation have been made to further enhance and strengthen the processes.
	Management Comments	<ol> <li>Agreed and will be actioned</li> <li>Agreed and actioned.</li> <li>Agreed but will be referred to as residual risk scores.</li> <li>Agreed: a. Arrange a combined register for the late spring committee. b. Ensure the agreement to 'once a year' combined register with full information is written into the revised strategy.</li> <li>Partly agreed: will consider looking at a corporate wide solution based on a valid business case.</li> </ol>



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Governance	
Improvement Recommendation 5	The chief internal auditor should provide for approval, a Three Year Internal Audit Strategy and Annual Internal Audit Plan documenting its Internal Audit Charter, which outlines the purpose, authority and responsibility of the internal audit activity.
	This should be provided in a timely basis.
 Why/impact	To be fully compliant with the Pubic Sector Internal Audit Standards.
 Summary findings	A comprehensive Internal Audit Plan documenting its Internal Audit Charter was not presented to the CGC for approval.
	The internal audit activity for the period April 2021 – September 2021 was note presented to CGC until July 2021.
 Management Comments	Agreed: A Strategy will be devised and Charter will be reviewed and revised where appropriate.



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#### We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

#### Performance management

Leicestershire County Council's Strategic Plan 2018 - 2022 describes the Council's overall policy framework and approach. It outlines the Council's vision and priorities for the county and the organisation. It also includes a high-level overview of a number of strategies which provide the detail on how it plans to deliver positive change for Leicestershire in line with these high-level commitments.

Following the outcome of the elections in May 2021, the Council have been working on the new Strategic Plan. The 2022-2026 Plan was launched in February 2022. The Plan sets out the Council's long-term vision and priorities for the next four years, which is based on five strategic outcomes:

- Clean and Green
- Great Communities
- Safe and Well
- Strong Economy, Transport and Infrastructure
- Improved Opportunities

The Council's progress and performance in delivering this Plan is monitored by Outcome Boards. Council Departments are required, through their annual service planning processes, to identify actions for each forthcoming year which will help to achieve the aims set out in the Plan. The Outcome Boards monitor progress in the delivery of these actions, as well as other actions already set out in this Plan.

Outcome Boards provide 6-monthly highlight reports to the Corporate Management Team in order to inform strategic decision-making and resource allocation.

The Council's Overview and Scrutiny Committees receive quarterly updates and Annual Reporting is provided for Cabinet and Full Council within the Annual Delivery Report. The Annual Delivery report sets out the projects and activities that have been undertaken against each of the priorities in the strategy and is supported by the Performance Compendium.

Departmental key performance measures are reported to Overview and Scrutiny Committee on a quarterly basis. The metrics of the report are aligned to the Council's Strategic Plan and include any mandatory reporting items. We confirmed that these provide a comprehensive overview of services and allow for robust challenge and discussion. They also identify any potential quality or effectiveness risks and provide an overview of where further action may be required. We reviewed a sample of the reports and noted the following:

#### Adult Social Care and Commiunites

During 2021/22, there were 28,500 new adult social care contacts, an increase of 11% on the previous year. This notable increase is due to a lower number of new contacts during the previous year when the pandemic first materialised.

The KPI information shows that on the whole there have been a number of positive outcomes during the year, for example reablement services, despite falling slightly short of targets, there is high-level use of personal budgets and direct payments.

However, findings from the carers survey have resulted in some areas which have fallen below expectations for example, the % of carers who had as much social contact as they would like had decreased from 30% to 24.7%, against a target of 33%. We note that the Council is looking at the national context and will take action accordingly.

Higher levels of permanent care admissions to residential and nursing homes have also been identified as an area to seek improvement in the coming 12 months.

#### Performance management

#### Children and Family Services

Our review of Children and Family Services performance reporting in Quarter 4 noted that, from 23 measures, six have improved but 12 have declined. (Five indicators are provided for information only). From 10 measures that have a national benchmark, one is in the top quartile, six are in the second quartile, one is in the third quartile and two are in the fourth quartile.

Two indicators have been reported with a RAG status of "RED". Our review noted there is supporting narrative to confirm the position and any action being taken to address:

- The percentage of Child Protection cases reviewed within timescales was 86.3% at the end of Quarter 4, a decline on the Quarter 3 figure (94.2%). This places Leicestershire in the fourth quartile of all local authorities by published benchmarks. This may reflect the implementation of additional standards to underpin the Child Protection process and more specifically some of the staffing pressures experienced in Quarter 4 across both Independent Reviewing Officer (IRO) teams and Locality teams.
- The percentage of children becoming subject to a Child Protection Plan for a second or subsequent time decreased to 28.0% at the end of Quarter 4. In this period 60 children began a second or subsequent plan, an increase from 47 reported in the preceding quarter. Leicestershire remains in the fourth quartile of local authorities compared to most recent national results published for 2020/21. This is an area of focus for the service and regular audits are completed, to understand any themes around the circumstances leading to repeat periods of child protection planning and to inform actions in response. Most recent findings suggest that Domestic Abuse remains a factor in some repeat plans and the implementation of the Domestic Abuse toolkit aims to strengthen exit planning. Consideration has been given to the timescales for a repeat plan starting and this has shown that for the majority, there has been a gap in excess of two years.

We noted that the indicators relating to school OFSTED inspections were rated as Amber:

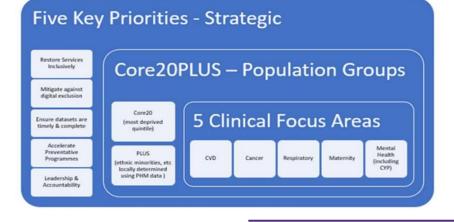
- The percentage of primary schools rated Good or Outstanding was 91.5% at the end of Quarter 4. This is 0.4% higher than the Quarter 3 figure (90.6%). This figure is within the second quartile of local authorities.
- The percentage of secondary schools rated Good or Outstanding was 75.6% at the end of Quarter 4. This is unchanged since Quarter 2, 2022. This figure is within the third quartile of local authorities and below the Most recent Statistical Neighbour average of 81.6%.

#### <u>Health</u>

On 1st July 2022 the Leicester, Leicestershire and Rutland (LLR) Clinical Commissioning Groups become an Integrated Care Partnership working with system partners for improved care and outcomes. As (see Appendix 1) with a focus on addressing the five priorities in the part of the ICS development there have been governance changes bringing quality and performance improvement conversations into a newly formed ICS System Quality Group. This has health and care representatives alongside local authority, health inequalities and patient colleagues. The purpose of the group is to provide a strategic forum to facilitate engagement, intelligence-sharing, learning and quality improvement across the ICS and it will report into a Quality, Safety and Assurance Committee separating the operational and assurance functions. This also fits with the requirements of the National Quality Boards and ensures the LLR ICS is compliant with their statutory duties and obligations.

Reducing health inequalities is a core priority for the LLR Integrated Care System (ICS) and a programme of work to reduce health inequalities will be guided by the 12 principles within the LLR Health Inequalities Framework 021/22 and 2022/23 NHS Operational Planning Guidance and the Core20Plus5 approach:

#### Health Inequalities Improvement Programme Prioritisation - Core20PLUS5



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#### Benchmarking

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can provide a basis for collaboration and identify areas for improvement.

In addition to reporting its own data, the Council also benchmark this information nationally against all County Councils to ensure it remains one of the best performing Councils in the country, despite its low funding position.

We concluded that there is clear evidence that performance reporting and the use of data and insights are used to track performance at all levels of the Council, which helps identify any areas and actions for improvement It was clear from our review that cost monitoring and performance are closely aligned and considered together across different service lines.

We have completed a benchmarking exercise using our management tool 'CFO Insights'. This compares the unit costs for a range of services and identifies areas where the unit costs were very high or very low in comparison to other county councils.

Analysis is based on the latest available data, which is the approved budgeted spend (RA data for 2022/23) per "Service Line". We have then associated a unit to the service line to calculate a unit cost, for example for Children's Social Care this is based on population aged 0-17, or for Adult Social Care this is population aged 18+. The unit score analysis then benchmarks against the comparator group eg other County Councils. A "Very High" score would place the Council in the top 20%, with "Very Low" placing in the bottom 20%.

We have provided, for information, the outcome of our analysis. The table opposite provides an overview of a sample of those Directorates where the unit cost is assessed as very high or very low. Currently there is one directorate within this category. The table on the following page of this report provides an overview of the Council's cost per unit of all Directorates when compared to nine County Council's.

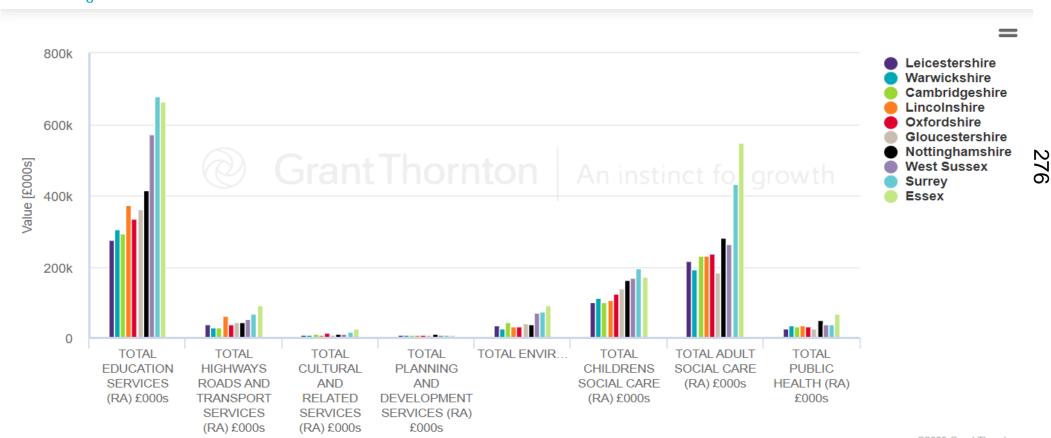
Overall, Leicestershire is a "Very Low" spending county per head of population when compared to other county councils considered as nearest neighbours. This data aligns with the Council's own benchmarking data which reports that Leicestershire has the lowest core spending power per head of 32 county councils nationally. The Council recognises that this poses a risk to service delivery going forwards and continues to raise the issue of fair funding with Central Government.

Service	Total Budget Cost 22/23 £000	Units	Unit Costs £	Unit Cost Score
TOTAL PLANNING AND DEVELOPMENT SERVICES (RA) £/head	6,217.00	713,085.00	8.72	Very High
TOTAL EDUCATION SERVICES (RA) £/aged 0-18	275,323.00	151,256.00	1,820.25	Very Low
TOTAL CHILDRENS SOCIAL CARE (RA) £/aged 0-17	101,102.00	143,343.00	705.32	Very Low
TOTAL ADULT SOCIAL CARE (RA) £/aged 18+	216,615.00	569,742.00	380.20	Very Low
TOTAL SERVICE EXPENDITURE (RA) £/head	730,013.00	598,070.00	1,023.74	Very Low

Source: RA Returns 2022/23

Comparator County Council group data:

- Nottinghamshire
- Lincolnshire
- West Sussex
- Essex
- Surrey
- Cambridgeshire
- Oxfordshire
- Warwickshire
- Gloucestershire



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**Benchmarking** 

#### Service User Feedback

When the council is considering how best to improve policies, services, or assets, or decide what the future direction of the organisation might be, ideas are typically invited from members of the public within a process known as 'engagement'. In some cases, there is a statutory obligation to get feedback from service users and interested parties; in other cases, talking to people is just the best way to get good information on how the council can improve. But as well providing valuable insight and data, engagement enables strong relationships to arise between the council and local communities.

The Council has developed Consultation & Engagement Principles that describes the current way that the council engages with residents and businesses, and the vision for future engagement. It also sets out the key principles, tools and methods that will enable the council to realise this vision.

The primary forum for getting feedback from officers across the Council was the Engagement Hub, which meets every other month. This is an informal group of officers from all departments who are involved in public engagement activity. The function of the Hub is to ensure that Council engagement initiatives are joined-up and efficient, for officers to get advice and support, and to reinforce the Council's standards of best practice. Drafts of the Principles document were shared with the group for comment, and detailed suggestions were received that served to refine the Principles, and to ensure that the document reflected our existing high standards of activity across different areas of work.

The outcome of all engagement exercises is published on the website using a "You Said, We Did" approach. Our review of a sample of completed engagements confirmed the process in place and provided evidence of good engagement and participation.

The Council's comments and complaints process allows for any learning to be developed and embedded into operational processes. The Council's website is clear in providing guidance of how this can be completed. The Council's vision is to "Listen, Respond and Improve".

A Corporate Complaints & Compliments Report is produced on an annual basis. The report demonstrates how some of the learning from complaints and compliments has been used to shape future service delivery and improve the overall customer experience. Complaints are managed by three separate systems – those which are a statutory process ie Adult Social Care and Children's Social Care and Corporate Complaints relating to all other

Adult Social Care and Children's Social Care and Corporate Complaints relating to all services provided by the Council.

Adults Social Care and Children's Social Care also provide annually the key messages of which are summarised into the Corporate Report. However we did not see evidence that the Children's Social Care Annual Report had been presented to Children and Families Overview and Scrutiny Committee. See improvement recommendation 7.

During 2021/22 the Council received 2691 contacts, of these 8% related to ASC:

			%
Contact Type	2020/1	2021/22	Change
Enquiries, Comments, and Informal resolution	1364	1531	+13%
Corporate Complaints	527	610	+16%
Adult Social Care Statutory Complaints	184	210	+14%
Childrens Social Care Statutory Complaints	63	65	+3%
Ombudsman Investigations	38	49	+29%
Compliments	215	226	+5%
	2391	2691	+13%

We reviewed the data supporting the ASC information and found that while the total number of social care complaints increased in year, and over the long term, it presents as a relatively stable picture:



Statutory regulations allow up to 65 working days for complaints to be resolved, a key expectation of the public is that their concerns are dealt with promptly. 11 ASC complaints (6%) were responded to outside of the statutory maximum, for Corporate Complaints this was 8% and Children's' Social Care.

See improvement recommendation 8.

#### **Commercial & Partnerships**

The Council has a number of commercial and partnership working arrangements in place both sub-regionally and regionally. Collaborate working arrangements are also in place across the health, voluntary and private sectors. An overview of the arrangements and actions is included within the Council's Annual Governance Statement. We noted some of the key arrangements include but are not limited to:

#### Eastern Shires Purchasing Organisation (ESPO)

ESPO is a local authority purchasing consortium made up six local authorities Its role is to provide its members and other client bodies with a comprehensive, cost effective contracting and procurement service through a diverse range of commodities, products and services. Oversight is provided through its Management Board and Audit Committee. Finance & Activity Performance is reported and monitored along with its Risk Register.

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

The Authority is a constituent member of Leicester, Leicestershire and Rutland Combined Fire Authority.

#### East Midlands Freeport

Freeports are a flagship Government programme that will play an important part in the UK's post-Covid economic recovery and contribute to realising the levelling up agenda, bringing jobs, investment, and prosperity to some of the most deprived communities, with targeted and effective support. The East Midlands Freeport (EMF) is the UK's only inland Freeport and features three main 'tax sites' straddling three East Midlands counties. The EMF brings together a mix of industries, businesses and other collaborating partners, combining public and private sector expertise.

Work to develop a Business Case began in 2021 and tax site designation was awarded by HM Treasury in March 2022. The Full Business Case was submitted to Government in mid-April and full designation is expected soon on legislative timetables. The Cabinet approved the County Council becoming a member of the newly incorporated Freeport Company, with the Leader as a nominated member to serve on the Board, and to continue the role of lead authority and accountable body for the Freeport.

#### Leicestershire Health and Wellbeing Board

Health and Wellbeing Boards act as a forum in which key leaders from the local health and care system work together to improve the health and wellbeing of the local population and plan how to tackle inequalities in health.

#### Leicester and Leicestershire Enterprise Partnership (LLEP)

LEPs are non-statutory bodies and as such require an Accountable Body to manage funding from Government. Leicester City Council is the Accountable Body to the LLEP and hence takes the ultimate legal and financial responsibility for the LLEP's activities.

#### Environmental & Waste Collaborations

The Council, through the Environment and Transport Department is partner in a number of environment and waste collaborations and acts as Key Partner.

#### East Midlands Development Company (DevCo)

The Council is a Board member of the DevCo, a company limited by guarantee from April 2021. Its ambition is to be a locally led urban development corporation, for which there is provision in the Levelling Up and Regeneration Bill published in May 2022. Nottinghamshire County Council is the Host Authority to DevCo but regard that ultimate responsibility for legal and financial activities etc lies with the DevCo as a company.

#### Active Together

Active Together, is an active partnership working collaboratively with a range of partners across Leicestershire, Leicester and Rutland, to help communities realise the benefits of a more physically active life. Active Together is funded from different sources including Leicestershire County Council (LCC) and Sport England. LCC is the host Authority and Active Together accounts form a part of the overall Public Health budget.

#### 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

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#### **Commercial & Partnerships**

From our discussions with key officers and review of Committee papers we can evidence that the Council has procedures in place for monitoring its commercial and partnership arrangements in place and challenging financial and non-financial performance.

We noted that a Value for Money review was instigated following concerns being raised in respect of the performance of the EMSS. We noted the action being taken as a result and that to meet the objectives of the Strategic Plan and improve service delivery, a Transformation programme has been developed to ensure that focus and momentum is maintained on delivering continuous improvement and efficiencies – ultimately to deliver 'value for money' for partners. The Programme has two main strands:

- Organisational Priorities to address issues and challenges that are EMSS-wide. These
  will focus on activities to improve well-being and engagement as well as embedding
  good cultural practises in every team.
- Service Priorities improvement activity that is focused on specific services or teams and will include the work to stabilise the Oracle platform.

In another example the Council has reported to Cabinet to challenge the Governance arrangements in place regarding the Council's membership of the East Midlands Development Company in light of concerns about the Company's management and governance. Cabinet have approved further actions and enquiries to be made to address the issues raised.

#### Investment Property

The Council owns and manages property and other investments, some of which are held for income generation purposes, through the Corporate Asset Investment Fund. The Council has in place a Corporate Asset Investment Fund Strategy 2020-2024 with the focus on increasing revenue in a transparent and secure way. This is an integral part of the Council's MTFS and linked with the Corporate Asset Management Plan, the Treasury Management Strategy and the Annual Investment Strategy.

The Board assesses investment proposals and monitors individual projects and the overall performance of the Fund. Financial performance is also monitored by officers and members through regular reporting to the Cabinet and Scrutiny Commission, as well as an Annual Report on investment activity throughout the year.

Firs Farm, Husbands Bosworth is owned by the Council as part of the County Farms Estate. During the winter of 2018 the Council's Trading Standards Service became aware of some irregularities in animal movement monitoring relating to the farm and a reported issue of illegal disposal of livestock carcasses. Subsequent inspections and monitoring suggested that there were other possible issues.

The Tenant has since absconded and it became apparent that criminal activity relating to illegal waste disposal was occurring on the farm. The Council will shortly be undertaking a tendering exercise for the removal and proper disposal of the waste on the farm and reinstatement of the farmland.

We note that the Council has been open and transparent in its reporting of these issues, including reporting as a Significant Governance Issue in its 2021/22 Annual Governance Statement.

While the Council could not have foreseen these issues arising, it does highlight the important of ensuring proper due diligence is undertaken, supported by ongoing monitoring and inspection processes.



#### Procurement

The Council do not currently have a procurement strategy in place. Following the move towards five corporate plan outcomes, the strategy was deleted as it was no longer aligned and repeated information in various places. However, the Council are currently developing an updated sustainable procurement policy and a renewed Social Value protocol which will align to the outcomes in the Corporate Plan and the requirements of the new national UK procurement rules which will be released in the new year.

We did note that the Council has clear and robust Contract Procedure Rules (CPRs) in place which are included as part of the Council's Constitution and documented within the council's website. This is supported by toolkit pages of guidance internally and externally which are maintained and published to provide information on "how to do business with the Council".

Procurement and subsequent contract monitoring and management is carried out at Departmental level. The Council do not have a centralised procurement function, however there is a Commissioning Support Unit (CSU) to provide support, advice and guidance when required.

However, from discussion, we note that oversight of contract monitoring and performance could be improved. Contract management, including performance and outcomes monitoring is overseen by departments, there are currently no arrangements in place for regular oversight or exception reporting to provide assurance of compliance with Key Performance Indicators (KPIs) for example.

We did note that the Council will be completing a review of its arrangements in place following the roll out of the new guidance, to ensure the current model is fit for purpose and continues to provide a robust and consistent approach.

Contracts are recorded within the Council's electronic system – Oracle Fusion. This is also available publicly within the Council's website. Departments are responsible for updating their own information with the CSU maintaining oversight. The CSU have implemented a number of processes and checks to improve controls, and ensure compliance with CPRs for example:

- Ad-hoc reports of supplier invoices with a cumulative value of above £25, 000, which is the Council's threshold for requiring quotation comparison, are run and matched against the register to ensure there are contracts in place.
- The system has been set up to automatically "flag" payments in excess of £25, 000,, occasions where contracts are not on the system are investigated further.
- The system has now also been configured to block any Purchase Orders being finalised prior to these checks being completed in advance of any payments made.
- The CSU also run a report of all contracts expiring within the next 12 months to ensure timely tendering exercises are undertaken.

Rule 6 of the CPRs provides exceptions to the process, where contracts may be placed by direct negotiation or where extensions can be granted subject to meeting criteria. We noted that all exceptions are reported to Corporate Governance Committee on an basis for oversight. Our review noted that the number and value of exceptions has increased significantly over the last two of years:

Period	Number of Approved Exceptions	Total Value of Approved Exception
1 July 2021 to 30 June 2022	81	£21.6 million
1 July 2020 to 30 June 2021	33	£11.4 million
1 July 2019 to 30 June 2020	20	£1.9 million

From our discussions with officers, we noted that while the pandemic has had some impact, the implementation of controls for blocking expenditure where a contract was not in place have adversely affected the number of waivers in place, suggesting these have been raised in retrospect. The CSU are currently working with Departments to ensure processes become further embedded with a view to reducing the number and value of exceptions. Our review of Corporate Governance Committee minutes provided confirmation of robust challenge, with the Committee requesting further information within its reporting.

### ) Improving economy, efficiency and effectiveness

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Improvement Recommendation 6	The Council should ensure that the Children's' Social Care Annual Compliments and Complaints Report is presented to Children and Families Overview and Scrutiny Committee information and oversight.
Why/impact	To provide assurance internally and externally of how the Council is progressing in meeting its priorities for the County.
Summary findings	We did not see evidence that the Children's' Social Care Annual Compliments and Complaints Report has been presented to Children and Families Overview and Scrutiny Committee.
Management Comments	Agreed: A separate report will be presented to the Children's & Family overview and scrutiny committee from September 2023. An overarching report which summarises all complaints is taken to the Scrutiny Commission each year, but noted these should also go to the individual C&FS scrutiny committee.



The range of recommendations that external auditors can make is explained in Appendix C.

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### Improving economy, efficiency and effectiveness

Improvement Recommendation 7	The Council should ensure that its performance monitoring processes identify instances which may breach the statutory target of responding to complaints, with a view to increasing compliance.
 Why/impact	Statutory regulations allow up to 65 working days for complaints to be resolved.
 Summary findings	6% of ASC complaints and 8% of Corporate complaints responded to outside of the statutory target.
 Management Comments	Agreed: A reporting framework will be developed to provide early warning of cases that risk breaching the statutory timescales.



# **Opinion on the financial statements**

## Independent opinion

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.

### Audit opinion on the financial statements

Our audit work was completed remotely during July 2022 to March 2023. The accounts presented for audit were supported by appropriate workings papers and officers worked constructively with us throughout the audit.

We identified a number of significant issues in our 2021/22 audit which have led to the need for adjustments to the draft financial statements. These include two material misstatements and one non material misstatements in the financial statements. The impact of these is:

- Write-off of academy land valuation £211m reduction in asset values at 31 March 2022, and the need for a Prior Period Adjustment.
- Incorrect netting off of debtor and creditor balances £43m increase in debtor and creditors
- Incorrect valuation of school buildings £5.3m increase in asset values at 31 March 2022.

Further issues identified for which adjustments have not been made to the financial statements are:

- Understatement of pension assets at 31 March 2022 (due to timing differences in valuation)- resulting in the overstatement of the pension liability by £2.3m
- Potential understatement of the debtors credit loss allowance, resulting in a projected estimated overstatement of debtors by £2.0m

- Derecognition of academy schools derecognised in the incorrect financial year - £8.4m overstatement of asset values at 31 March 2021. These schools were derecognised in 2021/22 but should have been in the prior year, resulting in an understatement to the loss on disposal recorded in 2020/21 and an overstatement of loss on disposal in 2021/21.

- Movement on valuations on assets not revalued in 2021/22 - resulting in an estimated understatement of asset values of £2.8m.

- Potential overstatements of debtors balances at 31 March 2022 due to subsequent issue of credit notes - extrapolated figure of £1.6m.

We note that the adjustment to credit loss allowances and the extrapolated error re income would reduce the useable reserves available to the Council.

We issued an unmodified audit opinion in March 2023.



## **Pension Fund Arrangements**

#### **The Pension Fund**



Overall responsibility for administration and governance of the Leicestershire Pension Fund lies with Leicestershire County Council as the administering authority.

In order to discharge these responsibilities the Council has established:

- a Local Pension Committee which is responsible for management of the fund. Membership of this Committee is made up of members of the County Council and of admitted bodies within Leicestershire, and also includes a number of non-voting staff representatives. The Committee met quarterly throughout 2021/22 and held an annual meeting in order to discharge its responsibilities to oversee investment management strategy and governance.
- an Investment Subcommittee which is made up of members of the Local Pension Committee and which deals with more detailed management of the investments, such as the appointment of investment managers and asset allocation changes.
- a Local Pension Board under Regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended) which operates independently of the Local Pension Committee, and whos role is to assist the County Council as the Administering Authority and Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme. The Board met quarterly throughout 2021/22 and publishes the Pension Fund Annual Report.

The Pension Fund publishes an annual Governance Compliance Statement which is included in the Pension Fund Annual Report and sets out how the fund has complied with its governance and investment management responsibilities.

From the work undertaken, we have not identified any significant weaknesses in the governance arrangements for the Pension Fund.

## Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	Consider making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published online.	Improvement	June 2021	The Council will look to include an indicator as part of the compilation on the next MTFS 2023-27.	Yes	No
2	Follow up all Internal Audit recommendations, including lower priority recommendations, through the use of the recommendation tracker.	Improvement	June 2021	Use of the case management system tracker is not yet fully developed but in order to meet the recommendation a workaround system has been devised and is due for roll out.	In progress	Yes
3	Review the level of resource dedicated to Internal Audit.	Improvement	June 2021	The auditor's review occurred before a decision was finalised to withdraw from academies provision which will return more resource to the Internal Audit service. Additionally, approval was given for replacements to vacant posts and a new apprentice post. The service has used (and will continue to use) agency and other resource and retains a small "specialist's" budget.	Yes	No
ų	Consider whether the Template Business Cases are aligned with best practise Treasury Better Business Case templates and are supported by a prescribed corporate approach for risk and reward analysis.	Improvement	June 2021	The procurement approach is a consideration of the current business case, but we will go back to the Treasury Business Case Template and review as recommended.	Yes	No

## Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
4	Consider introducing the triage approach operated by the CSU for property Contract Awards to other departments.	Improvement	June 2021	The introduction of a triage approach has been successful within property contracts and consideration is being given to other areas of the organisation that would benefit from this approach such as contracts that are high value, high risk or business critical.	Yes	No
5	Embed a corporate approach to procurement and contract management within each department structure.	Improvement	June 2021	Further work is being completed to refresh guidance and updated documentation in the form of a Procurement Strategy and Toolkit. This is being progressed through the CSU Target Operating Model work.	In progress	Yes
6	Provide annual refresher training for all staff charged with management of contracts.	Improvement	June 2021	Refresher training is planned for all Contract Managers, with the added element of a checklist for compliance. This is being progressed through the CSU Target Operating Model work.	In progress	Yes
7	Update the list of business critical suppliers on a regular basis.	Improvement	June 2021	Business Continuity, Contract Managers and Commissioning Support Unit are working together to develop and keep updated the list of business critical suppliers. This is being progressed through the CSU Target Operating Model work.	In progress	Yes

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# **Appendix A - Responsibilities of the Council**

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



# Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
<ul> <li>Financial sustainability was identified as a potential significant weakness:</li> <li>Identification of future savings: adequacy of the arrangements for identification of future savings to enable a balanced financial position to be delivered beyond 2022/23.</li> <li>Impact of pay and price inflation and demand pressures: the ability of the Council to adapt financial plans and secure savings required to counter the impact of price and pay inflation and demand pressures.</li> </ul>	<ul> <li>We have reviewed and considered the Council's arrangements in place during the year for monitoring and reporting on its short and medium term financial position, including:</li> <li>the impact of the economic climate and in particular the rising rate of inflation.</li> <li>the arrangements for the identification of future savings.</li> <li>plans for mitigating financial risk.</li> <li>forecast outturn position and plans for delivering a balanced year end position.</li> </ul>	arrangements for delivering a balanced outturn. We have therefore not reported a significant weakness within our report, however, an improvement recommendation has been made that the Council should continue to develop and implement mitigating actions to	Appropriate arrangements are generally in place. However, we are concerned at the size of the SEN budget deficit and have raised a key recommendation on this matter and consider it to be a significant weakness in the Councii's arrangement. We have also raised an improvement recommendation with regard to the Council's financial sustainability.
see 10 for more details.	The SEN budget remains under significant pressure with an in year deficit of £11m for 2021/22 and a cumulative deficit of £37m which is forecast to increase significantly in	address the significant budget deficit forecast for 2022/23. With regard to the SEN budget deficit we consider that this represents a significant weakness and have raised a keu	

recommendation on this matter.

later years.

# Appendix C – An explanatory note on recommendations

#### A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Кеу	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	14-15, 20-22 & 31-32



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### **CONSTITUTION COMMITTEE – 21<sup>st</sup> MARCH 2023**

### APPOINTMENT OF INDEPENDENT MEMBERS TO THE CORPORATE GOVERNANCE COMMITTEE

### REPORT OF THE CHIEF EXECUTIVE

#### <u>Purpose</u>

1. The purpose of this report is to seek the Committee's approval of the proposed timetable for the appointment of independent members to the Corporate Governance Committee.

### **Background**

- 2. The terms of reference of the Constitution Committee include the function of advertising and interviewing suitable people for recommendation to the County Council for appointment as an independent member of the Corporate Governance Committee.
- 3. Guidance issued by CIPFA recommends that local authorities include two co-opted independent members on their audit committee to:
  - Supplement the knowledge and experience of elected members in specific areas such as finance and audit;
  - Provide continuity outside the political cycle (this being of particular importance where members of the committee can change annually or because of elections;
  - Help achieve a non-political focus on governance, risk and control matters.
- 4. Whilst it could be some time before the relevant statute is enacted to support this approach the Government has encouraged local authorities to establish their audit committee arrangements in line with this guidance.
- 5. CIPFA specifically recommends two co-opted independent members rather than one, as this will allow for the recruitment of members with different but complementary knowledge and experience, increase the resilience and continuity of the Committee and show commitment in supporting and investing in the Committee.

- 6. Independent members are non-elected representatives who are recruited based on the suitability of their qualifications and experience in the area of audit and/or governance. They should provide:
  - specialist knowledge and insight to the workings and deliberations of the committee;
  - an effective, independent assurance of the adequacy of the risk management framework;
  - an independent review of the Council's financial and non-financial performance;
  - independent challenge to, and assurance over, the Council's internal control framework and wider governance processes.
- 6. The Independent Member(s) would not be able to vote on matters like elected members of the Committee can, but they will be part of the Committee in an advisory and consultative capacity.
- 7. The Corporate Governance Committee considered a report on the new CIPFA guidance and supported the proposed approach to seek to appoint of 'up to' two independent members, recognising that some authorities have had difficulty in appointing more than one.

#### **Appointment Process**

- 8. In accordance with the Council's Constitution, recruitment will be carried out by Members of the Constitution Committee and the Chair of the Corporate Governance Committee will also be involved in line with CIPFA Guidance, following a public advertisement and interviews supported by the Director of Law and Governance.
- 9. If only one independent member is appointed, the Constitution Committee following consultation with the Chairman of the Corporate Governance Committee will determine if and when a further appointment should be sought.
- 10. In order that the new appointments can be put to the County Council for approval at its Annual Meeting in May 2023, the following timetable is proposed:

Advertisement

24<sup>th</sup> March 2023

[Alert to be sent to all County Council Members attaching copy of the advertisement and a letter sent to various bodies including district councils asking them for assistance in publicising the opportunity]

Closing date for applications

6<sup>th</sup> April 2023

Shortlisting by the Chief Executive in consultation with the Chairman of the Constitution Committee and Corporate Governance Committee	by 11 <sup>th</sup> April 2023
Letter to invite candidates for interview	by 14 <sup>th</sup> April 2023
Interviews to be conducted	Between 24 <sup>th</sup> and 28 <sup>th</sup> April 2023
County Council meeting	17 <sup>th</sup> May 2023

#### **Recommendation**

5. That the proposed timetable for the appointment of independent members to the Corporate Governance Committee be approved.

### Circulation under Local Issues Alert Procedure

None

### **Background Papers**

Report to the Corporate Governance Committee on 21 November 2022 – Revised CIPFA Guidance for Audit Committee Members and Officers.

### **Officer to Contact**

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By virtue of paragraph(s) 1, 2 of Part 1 of Schedule 12A of the Local Government Act 1972.

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