

Contents

Leicestershire County Council 2004/05 Statement of Accounts.

	Page
Explanatory Foreword	2
Statement of Responsibilities for the Statement of Accounts	6
Statement of Assurance on Corporate Governance and on the System of Internal Control	7
Audit Opinion	Awaited
Statement of Accounting Policies and Estimation Techniques	13
Consolidated Revenue Account	19
Notes to the Consolidated Revenue Account	21
Consolidated Balance Sheet	28
Notes to the Consolidated Balance Sheet	30
Statement of Total Movements in Reserves	45
Notes to the Statement of Total Movements in Reserves	46
Cash Flow Statement	49
Notes to the Cash Flow Statement	50
Pension Fund	52
- Fund Account	54
- Net Assets Statement	55
- Notes to the Accounts	56
Glossary of Terms	64

Copies of the Statement of Accounts and a large print version, are available from the Financial Services Division, Resources Department, Leicestershire County Council, County Hall, Glenfield, Leicester LE3 8RB. Tel: Leicester (0116) 2657643. Alternatively, the accounts can be viewed on the County Council's website by visiting www.leics.gov.uk.

Explanatory Foreword

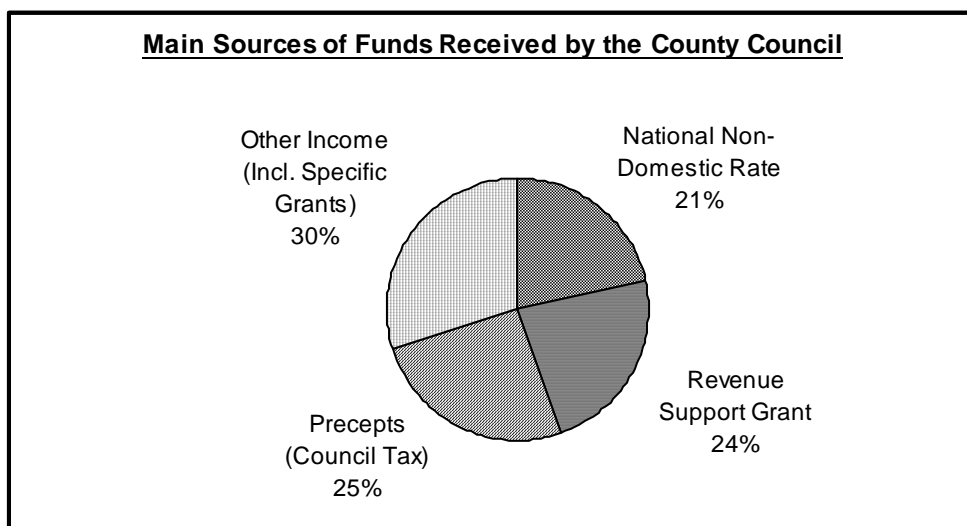
Introduction

This document sets out the published statement of accounts of the Authority for 2004/05.

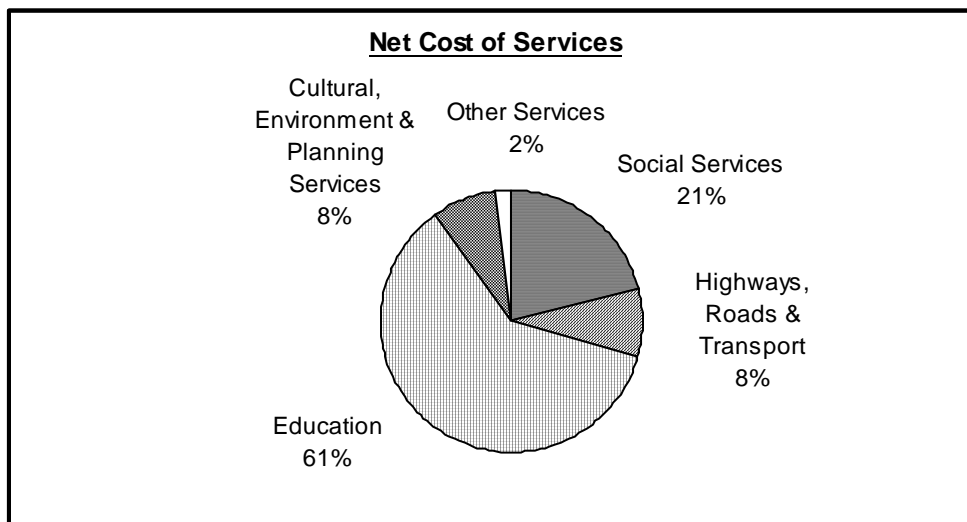
This foreword gives a brief summary of the overall financial position of the County Council, sets out how the County Council's budget is spent and financed and explains the purpose of the financial statements that are contained within the accounts.

Sources of revenue funding and services provided

The chart below details the main sources of funds received by the County Council.



This income is used to finance the various services provided by the County Council. As the chart below shows, the most significant in terms of expenditure are Education and Social Services.



Review of the Year - Revenue

In overall terms the County Council underspent against the original budget by £5.5m net of carry forwards (£10.5m gross). In addition the provisions and creditor for a) estimated cost of correcting errors to population estimates, made by the Office of National Statistics (£2.3m) and b) the estimated cost of an industrial tribunal judgement against the County Council in relation to consultation on the implementation of job evaluation (4.5m) have been charged to the revenue account. This impacts on both the level of underspending and the county fund. The significant underspends against the updated budget are set out below:-

Underspends

- Education (£3.3m). This underspend arose in a number of areas. Nursery provision underspent as the take up of places was lower than budgeted and there was slippage on new nursery projects. The special education needs out of county placements budget underspent as a result of reduced demand from older students. A variety of service units also underspent as did mainstream transport as a result of lower than expected demand.
- Social Services (£1.3m). The residential care for older people budget along with the residential care budget for adults with physical disabilities underspent mainly as a result of increased income. There was a general employee budget underspend that arose mainly as a result of planned savings in non front line staff and savings due to recruitment difficulties in certain areas. In addition, the IT equipment budget underspent as a result of slippage in the electronic social care records project. These underspends were partially offset by overspends mainly on the Independent Home Care budget as a result of lower than anticipated income and the supported living for adults with learning disabilities budget as a result of increased demand and costs.
- Waste Disposal (£0.6m). This was mainly due to the growth in waste tonnage being lower than anticipated.
- Community Services (£0.6m). This was due to a variety of reasons, including external delays to the minerals and waste local planning framework and higher than budgeted income on a variety of services.
- Other (£4.6m). This is mainly due to lower than forecast capital financing costs due to a number of factors including loans being taken out at lower than anticipated interest rates. In addition, bank and other interest was higher than budgeted. Central departments underspent as a result of a number of factors including higher property department income and slippage on projects aiming to improve access to services and other ICT projects.

Review of the Year - Capital

In 2004/05 the County Council spent £62.3m on capital projects. The table overleaf shows the main areas of expenditure.

Department	Outturn £000
Education	28,464
Highways, Transportation and Waste Management	26,123
Social Services	715
Community Services (Libraries, Museums, Country Parks, Regeneration)	3,419
Resources (ICT, County Farms, Access for the Disabled)	2,007
Chief Executive (Various Grants for Rural Services)	156
Corporate (Better Access to Better Services Initiative)	392
Magistrates Courts	294
Other Capital Items	731
Total	62,301

The above expenditure was financed through several sources, the details of which appear in note 5 to the balance sheet.

The Council's long term borrowings, used to finance the purchase of assets were £290m at 31st March 2005. The book value of assets was £713m.

The major projects undertaken and expenditure incurred in the year were:

	£000
Schools	
• Coalville Castle Rock High – replacement school	2,063
• Wigston Bushloe High – replacement school	1,619
• Melton New Special – replacement school	1,495
• Oadby Manor High – new science block and mobile replacement	1,215
• Loughborough Shelthorpe – new early years centre	1,059
• Melton King Edward VII Secondary School – new teaching block	957
• LFE Stafford Leys Primary – mobile replacement	571
• Ashby Ivanhoe College – new science block	577
• Braunstone Ravenhurst Primary – mobile replacement	530
Roads	
• Rearsby Bypass	6,006
Other Services	
• Snibston Discovery Park – fashion gallery	463
• Bosworth Battlefield – tithe barn restaurant	690
• Measham Library – replacement	422
• Loughborough – household refuse & recycling site	1,330

Future Prospects

Considerable uncertainty continues to surround the allocation of central government resources to all councils over the medium term. The Lyons Inquiry into the funding of local government is set to report this year, the formula for distributing grant to local authorities is being reviewed and a new mechanism for funding schools will be implemented from 2006/07 onwards. Given the uncertainty the only basis for planning is the comprehensive spending review that was published last year. This indicated that the settlement for adult Social Services, Waste and Highways Maintenance would be poor.

The main cost pressures continue to be within Social Services and Waste Management. Demand and cost pressures for independent home care and residential and nursing placements are expected

to continue. The main pressures in Waste Management are the landfill tax and recycling costs given the need to comply with the EC Landfill Directive. Other budget pressures relate to inflationary costs of bus contracts for both schools and the public, increasing cost of highway and building maintenance and increasing energy costs. In addition, further revenue growth will be required to progress the new council's corporate priorities.

The County Council, following the local elections in May, is in the process of updating and developing its Medium Term Corporate Strategy and financial plans taking account of the financial environment and the Councils priorities. Developing the financial plan will be a difficult process of allocating resources for the councils priorities, agreeing the approach for non priority areas and identifying efficiency savings both as a result of the need to address central governments agenda and local pressures to restrain local council tax increases.

Changes in Accounting Policies

With effect from 2004/05 any new additional retirement benefits awarded to former employees within the local government pension scheme are subject to a one off capital payment from the revenue account to the pension fund, actual cash payments being charged to the pension fund. Payments of such benefits to existing pensioners continue to be charged to the revenue account as and when paid. The new policy is intended to ensure service departments take account of the costs associated with early retirement when making decisions that could result in early retirement.

Contents of the Statement of Accounts

□ Consolidated Revenue Account

Covers expenditure and income for all services (other than the Pension Fund) which is funded from a combination of Revenue Support Grant, National Non-Domestic Rate income and precepts upon collection funds maintained by District Councils.

□ Consolidated Balance Sheet

Sets out the financial position of the County Council on 31st March 2005. It incorporates all the funds of the Authority, both capital and revenue, with the exception of the Pension Fund and Trust Funds.

□ Statement of Total Movements in Reserves

Brings together all the recognised gains and losses of the Authority during the period and identifies those which have and have not been recorded in the consolidated revenue account. The statement separates the movements in revenue reserves and capital reserves.

□ Cash Flow Statement

Gives a summary of the inflows and outflows of cash arising from transactions with third parties during the financial year. Internal transfers are thus excluded from expenditure and income.

□ Pension Fund

Shows the annual results of the Leicestershire County Council administered Local Government Pension Fund for Leicestershire covering both County Council employees and those of District Councils and other admitted bodies.

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

These accounts were approved at a meeting of the Constitution Committee on 30th June 2005.

D R PARSONS

LEADER OF THE COUNTY COUNCIL AND CHAIRMAN OF THE CONSTITUTION COMMITTEE

DATE:

THE DIRECTOR OF RESOURCES' RESPONSIBILITIES

The Director of 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 of Practice').

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

- selected suitable accounting policies and then applied them consistently,
- made judgements and estimates that were reasonable and prudent,
- complied with the Code of Practice,
- kept proper accounting records which were up to date,
- taken reasonable steps for the prevention and detection of fraud and other irregularity.

I certify that the Statement of Accounts has been prepared in accordance with proper practices and presents fairly the financial position of the County Council and its income and expenditure for the year ended 31st March 2005.

A D YOUD

DIRECTOR OF RESOURCES

DATE:

Statement of Assurance on Corporate Governance and on the System of Internal Control 2004/05

1. SCOPE OF RESPONSIBILITY

Leicestershire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging this accountability, members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Leicestershire County Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.

2. CODE OF CORPORATE GOVERNANCE

The Council approved and adopted a Code of Corporate Governance on 13 May 2003 which is consistent with the principles and requirements set out in the CIPFA/SOLACE Framework – Corporate Governance in Local Government: A Keystone for Community Governance. A copy of the Code is on the Council's website at www.leics.gov.uk or can be obtained from the Public Relations Unit at County Hall. The Code reflects the Council's commitment to comply with the underlying principles of: Openness, Inclusiveness, Integrity and Accountability and is framed around five dimensions:

- a) Community focus
- b) Service delivery arrangements
- c) Structures and processes
- d) Risk Management and Internal Control
- e) Standards and conduct

3. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at the Council for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts.

4. THE INTERNAL CONTROL ENVIRONMENT

The Council sets out its objectives through the Medium Term Corporate Strategy, which is developed in consultation with the Leicestershire Local Strategic Partnership and its Community Strategy. Linked to this are Service Plans, Medium Term Financial Plans, the Public Service Agreement, the Best Value Performance Plan and Action Plans arising from efficiency reviews and external inspection reports.

The Council's constitution provides the framework for its decision making processes and sets out the detailed procedures and codes of conduct by which Members and officers operate to achieve Council objectives.

Under the Constitution a Leader and Cabinet form the decision-making Executive. Their decisions must be in line with Council objectives, and are subject to examination by a number of overview and scrutiny committees. Meetings are open to the public except where confidential or exempt matters are being disclosed. Key decisions to be taken by the Executive are published in the Authority's Forward Plan and reports and background papers are available on the County Council website at www.leics.gov.uk.

The County Solicitor is the designated Monitoring Officer with responsibility for ensuring the lawfulness of decisions taken by the Council, Cabinet, its committees and officers, providing support and advice on the maintenance of ethical standards and advising the Council's Standards Committee.

As Chief Financial Officer, the Director of Resources is responsible for the proper administration of the Council's financial affairs. The Director has also developed the policy statement on risk management and corporate risk management strategy through the operation of a corporate risk management group. This group represents the interests and views of all departments and is responsible for embedding risk identification and assessment in service and project planning using an agreed methodology, as well as ensuring that all major risks encountered by the Council are identified, assessed and responded to at an appropriate level. Guidance has been issued and training in assessing, managing and monitoring risks has been provided to appropriate staff through risk workshops. Departmental and corporate risk registers are maintained.

To ensure the economical, effective and efficient use of resources, and for securing continuous improvement in the way functions are exercised, the Council has established a performance management framework. This framework requires each Department to produce annual service plans setting out their objectives and targets in relation to Council policy priorities. These plans form the basis of the Council's annual Best Value Performance Plan, which summarises progress against targets and sets out proposed improvements in performance and service standards. Progress against the Council's priorities is monitored and reported to Members on a quarterly basis. A process of identifying individual employee targets and development needs linked to departmental objectives has been almost wholly established, with some areas gaining the Investors in People (IIP) accreditation.

The system of internal financial control is based on a framework of regular management information, financial procedure rules and standard financial instructions, administration arrangements (including segregation of duties), management supervision and a system of delegation and accountability.

5. REVIEW OF EFFECTIVENESS

Leicestershire County Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority who in performing their statutory roles have responsibility for the development and maintenance of the internal control environment. The review process is also routinely informed by the work of the Scrutiny Committees within the Authority as well as comments made by the external auditors and other review agencies and inspectorates.

The Chief Executive has a duty to monitor and review the operation of the constitution and the Monitoring Officer (County Solicitor) has a duty to report to Cabinet on matters which could be considered as unlawful or give rise to maladministration. As part of this process the Monitoring Officer undertakes an annual assessment of the Authority's compliance with the Code of Corporate Governance. In 2004/05 the Council's internal auditor reviewed the key supporting arrangements for the code and the context of compliance with it. He has concluded that many of the expected controls are in place, but that further work needs to be carried out in 2005/06 to ensure the quality of controls already in place to combat high impact risks. He has made a series of recommendations which will be the subject of an action plan.

The Chief Executive reviewed the Council's Constitution and recommended a number of changes which were agreed by the Council's Constitution Committee on 19 October 2004.

Overview and Scrutiny Committees support the work of the Executive and the Council as a whole, by producing reports and recommendations, which advise the Executive and the Council on its policies, budget and service delivery. Decisions of the Executive are also monitored by these committees, who have the facility to 'call in' a decision made by the Executive that has not yet been implemented in order to assess whether the decision is appropriate.

The effectiveness of the Council's internal controls is examined in detail through the work of the Internal Audit section of the Resources Department. The section's four-year work plan is based on a needs and risk assessment process that focuses resources on higher risk areas and meets the professional standards required by CIPFA. Audit findings are reported to the relevant Chief Officer and Service Manager, together with recommendations for improvement and an action plan. Checks are undertaken by Internal Audit to ensure agreed recommendations have been implemented.

Based on evidence from planned audits and any special investigations, the Chief Internal Auditor reports each year to the Director of Resources and to members of the Council on any major weaknesses that have been identified in the internal controls examined and highlights where important improvements are considered necessary. The Director of Resources reviews this information along with other relevant information such as budget monitoring reports and assurance statements in compiling this statement. The work of Internal Audit and the wider financial aspects of corporate governance and performance management are examined each year by the Council's external auditors.

Formal assurance is provided by departmental Chief Officers that the policies and procedures are being applied in the initiation, development and delivery of service plans. Where gaps have been identified, action plans have been drafted and responsibility for implementation assigned.

Risk management is undertaken as part of the normal service planning and project management process. The Corporate Risk Management Group, through the Director of Resources, will report significant issues identified during this process to cabinet on an annual basis. Regular performance monitoring reports are also brought to the Cabinet showing progress against the Best Value Performance Plan, the Local Public Service Agreement and the Medium Term Corporate Strategy.

Further assurance is provided by regular reports produced by independent review bodies including the Audit Commission, Commission for Social Care Inspection, Ofsted etc.

As part of the Audit Commission's Comprehensive Performance Assessment, the Council received an excellent rating overall. In particular the Council's policies and procedures, recognised within the use of resources category, received the top rating of four. Our performance management processes, corporate cohesion, drive and community leadership were specifically recognised as strong, making the Council well placed to further improve the way it works and the services it provides to local people.

6. SIGNIFICANT INTERNAL CONTROL ISSUES

The reviews of the effectiveness of the system of internal control undertaken by both Internal and External Audit have advised that the Council's overall financial management and corporate governance arrangements are sound and that arrangements for the collection and reporting of performance information is satisfactory.

In producing this statement the following current internal control issues have been identified and action is being taken to resolve them:

□ Procurement and e-procurement

Further work is required to develop a consistent corporate approach to procurement and to take advantage of potential efficiency savings. An inter-departmental procurement liaison group has been established together with a corporate procurement unit in order to develop and implement the Authority's corporate procurement strategy, monitor procurement performance and support procurement staff within departments. The corporate procurement strategy has been updated to incorporate the results of the initial procurement assessment and to include measurable performance targets. Cabinet has endorsed the procurement improvement plan, which is in the process of being implemented. A three-year e-procurement programme is also being developed and instigated.

□ Risk Management

Further work is required to fully embed risk management into the culture of the organisation. Risk assessments are to be extended to cover operational risks beyond those identified during the service planning process. These would include major risks that are considered to be already well controlled. Progress against action plans will be monitored as part of the performance management process.

□ LSC Grant Claims

Some Leicestershire County Council Community Colleges receive funding from the Learning and Skills Council (LSC) to fund further education courses. These colleges are required to claim the monies from the LSC and these claims are subject to certification by our external auditors. Although in previous years only a few issues had been identified as part of this work the review of the 2003/4 claims identified a number of control weaknesses within the Community Colleges. The Authority is responding to the issues raised by the auditors and taking steps to improve the systems and evidence available to support the claims.

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

John Sinnott
Chief Executive

David Parsons
Leader of the Council and
Chairman of the Constitution Committee

Statement of Accounting Policies and Estimation Techniques

1. General principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2004 - A Statement of Recommended Practice (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). These accounts are maintained on an historical cost basis, subject to the valuation and depreciation of certain categories of asset where values are based on current cost.

2. Provisions

The County Council has established a number of provisions to meet liabilities which are expected to arise in future years but are of uncertain timing or amounts.

The insurance policies held by the County Council 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 2005 and a reserve to meet future claims.

Details of these provisions are shown in note 18 to the balance sheet.

3. Reserves

a) Revenue

The General County Fund balance represents a working balance derived from past savings disclosed in the consolidated revenue 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 fall outside the definition of a provision.

Details of these reserves are shown in note 20 to the balance sheet.

b) Capital

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

i) Fixed Asset Restatement Account

This reserve represents the movement arising on the revaluation of fixed assets.

ii) Capital Financing Account

This reserve represents amounts set aside from revenue resources, and capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions.

4. Fixed assets

All expenditure on the acquisition and/or improvement of land, buildings, roads, bridges, plant and major purchases of equipment is capitalised provided that these assets yield a benefit to the Authority for a period of more than one year. However, some relatively minor items may be financed from revenue.

Fixed assets are valued on the basis recommended by the SORP and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS).

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

- **Intangible Assets** cover the purchase of software licences and valuation is based on depreciated historical cost for all assets with an original cost in excess of £10,000.
- **Land and operational buildings** are included in the balance sheet at open market 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 once every five years. The valuation is carried out by various Chartered Surveyors in the Property Services Division of the Resources Department.

The current asset values used in the accounts are based on a certificate issued by the Council's Head of Property Services Division as at 1 April 2004. Additions since that date are either included in the accounts at their cost of acquisition (if above £50,000), or written off to the fixed asset restatement reserve if the actual expenditure does not increase the asset valuation.

- **Infrastructure assets** are valued on the basis of depreciated historical cost.
- **Community assets** are assets that the authority is likely to keep in perpetuity for the benefit of local people, e.g. country parks and reclaimed land. Such assets are valued at nominal values for assets acquired prior to 1994 and historical cost thereafter.
- **Non-operational assets** cover investment properties, assets surplus to service requirements and assets under construction or refurbishment. Valuation of investment properties and assets surplus to requirements is based on open market value whilst valuation of assets under construction is based on actual payments made to date.
- **Vehicles, plant, furniture and equipment;** valuation is based on depreciated historical cost for all assets with an original cost in excess of £10,000.

5. Leased Assets and Deferred Purchase Arrangements

Assets acquired under finance leases are reflected in the appropriate category of fixed asset, together with a deferred liability to pay future rentals. In addition assets financed by a deferred purchase arrangement are similarly reflected in fixed assets, with the liability to the merchant bank included in long term borrowings.

Rentals payable under operating leases are charged directly to revenue account.

6. Deferred charges

Deferred charges represent expenditure which may be properly capitalised but which does not represent tangible fixed assets. The County Council operates a policy of charging 100% of such expenditure to service revenue accounts.

7. Basis of charges for capital

Capital charges are made to all services in the consolidated revenue account, which utilise assets in the delivery of that service; this comprises two elements, depreciation and notional interest

a) Depreciation

Buildings are depreciated over their remaining useful economic lives as assessed by the property valuer, with no allowance for a residual value. No depreciation charge is made for the majority of land, community assets or assets under construction or refurbishment.

Where assets suffer impairment, then dependent upon the reason for that impairment, an accelerated depreciation charge may be made to the revenue account.

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

- Intangible Assets – up to 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).
- Infrastructure - 40 years.
- Vehicles, plant, furniture and equipment - estimated useful life (averaging around 5 years).

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

b) Interest Charges

Notional interest charges are applied to all assets in the balance sheet, and are based on asset valuations at the beginning of the financial year. The notional rate of interest for assets carried at current value is 3.5% (3.5% 2003/04) and for those carried at historical cost it is 4.8% (4.625% 2003/04).

c) Assets acquired under Finance Leases

Service revenue accounts are charged with actual rentals paid to leasing companies.

8. Asset Management Revenue Account (AMRA)

Interest payable on external debt, together with depreciation, is charged to the asset management revenue account, which is credited with the capital charges made to services. The resultant balance is carried to the consolidated revenue account and thus the creation of these charges has a neutral impact on the overall expenditure of the Authority.

9. Capital receipts

Proceeds from the sale of assets are credited to the usable capital receipts reserve. All such receipts are available to the authority to enhance its programme of capital expenditure or to reduce external borrowing. Receipts so used are transferred to the capital financing account. The extent to which receipts have not been utilised at year end are reflected in the balance sheet as capital receipts unapplied.

The County Council is unable to comply with FRS 3, as legislation on the use of capital receipts by local authorities does not permit gains or losses on the sale of fixed assets to be credited to the revenue account.

10. Basis of debtors/creditors included in the accounts

The revenue accounts of the County Council are maintained on an accruals basis. Thus, sums due to or amounts owing by the Council in respect of goods and services rendered but not paid for at 31 March are included in the accounts. The exceptions to this policy are as follows:

- a) Payments covering a period, e.g. fuel, telephone, rent, are brought into account in the year they become due and are not apportioned over the years to which they may relate.
- b) Interest on staff car loans for the whole period of the loan is taken to the revenue account when the loan is granted.

11. Government grants

Government grants are accounted for on an accruals basis. Income in respect of revenue grants has been credited to the appropriate service revenue account, whilst the majority of capital grants are credited to the government grants and contributions deferred account. Amounts are then released from this account to a) offset any depreciation on assets financed from such resources, b) reflect expenditure incurred that does not increase asset values.

12. Stocks and work in progress

Stock accounts are normally only maintained for certain specified major items; other immaterial stocks, e.g. cleaning materials, books and stationery, are fully charged to revenue in the year of purchase. Stocks are valued at cost price with allowance for obsolescent or slow moving stocks where material. Work in progress is shown at cost price.

13. Allocation of support service costs

The revenue expenditure of the various services include a charge for all support services provided by the central departments of the Authority, other than the direct cost of councillors and their support and non distributed costs both of which are disclosed separately in the revenue account.

These charges are based upon various methods of allocation including staff time and volume of transactions. Office accommodation costs are based on floor areas occupied.

14. Pension Schemes

The County Council participates in two pension schemes for employees in particular services. All the schemes provide members with defined benefits related to pay and service. The schemes are as follows:

- **Teachers**
This is an unfunded scheme administered by the Teachers Pensions Agency (TPA) on behalf of the Department for Education and Skills.
- **Other employees**
Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. This is a funded scheme with employees and employers paying contributions into the fund calculated at a level intended to balance liabilities with investment assets.

Note: In Leicestershire the Local Government Pension Scheme is administered by Leicestershire County Council and the Pension Fund accounts are included in this booklet on pages 52 to 63.

15. Pension costs

Teachers

Accounting for this scheme follows that of a defined contribution scheme and thus there is no reflection of assets and liabilities in the County Council's accounts. The pension cost charged to the accounts is the contribution rate set by the TPA on the basis of a notional fund.

Other Employees

As a defined benefit scheme accounting arrangements follow the requirements of FRS17 on Retirement Benefits, which requires the disclosure of the estimated pension liability onto the balance sheet whilst charges to the revenue account are based upon the cost of benefits earned by employees in that year as assessed by an actuary. The extent to which this differs to employers contributions paid in accordance with statutory regulations is reflected by a transfer to or from a Pension Reserve to ensure that these accounting arrangements do not impact on the levels of local taxation.

Disclosure note 24 to the Consolidated Balance Sheet provides further details.

In assessing liabilities for retirement benefits at 31 March 2004 for the 2003/04 Statement of Accounts, the actuary was required by the SORP to use a discount rate of 3.5% real (6.5% actual). For the 2004/05 Statement of Accounts, a rate based on the current rate of return on a high-quality corporate bond of equivalent currency and term to scheme liabilities has been used. The actuary has advised that a rate of 2.4% real (5.4% actual) is appropriate. Application of this rate has resulted in an increase in liabilities of £125m, adjusted for by an increase in actuarial losses recognised for the year in the Statement of Total Movement on Reserves.

16. Premiums and discounts arising from premature repayment of external loans

The authority continuously reviews existing external loans and interest rates being paid, and has the option of restructuring or refinancing this debt.

Premium or discounts arising from premature repayments of debt are charged to the revenue account over the period of the replacement debt; in the case of Lobo's (Lender's Option Borrower's Option) this reflects the full term of such loans.

17. VAT

VAT incorporated in the revenue account is limited to irrecoverable sums.