Appendix A

Leicestershire County Council

Statement of Accounts and Annual Governance Statement

2016/17

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

Alternatively, the accounts can be viewed on the County Council's website by visiting: http://www.leicestershire.gov.uk/

Narrative Statement

Introduction

This document sets out the published Statement of Accounts and Annual Governance Statement of the Authority for 2016/17. The Narrative Statement provides a summary of the overall financial performance of the Authority, the future prospects for the Authority and explains the purpose of the financial statements that are contained within the accounts.

Economy, Efficiency and Effectiveness

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

The Authority's Medium Term Financial Strategy (MTFS) continues to identify the significant budget reductions needed to achieve a balanced budget. Savings of £43.3m are forecast to be made over the next four years, 2017-2021, with £16.4m to be achieved in 2017/18. Additional savings of £23m will also be required by 2020/21. This is a challenging task considering that savings of £160m have already been achieved in the last seven years.

Financial Performance

In February 2016 the Authority approved a net revenue budget for 2016/17 of £346.7m (2015/16 £349.0m). In addition £13.8m of the 2015/16 underspending was carried forward and added to the budget. The final outturn position for the year against the revised budget is set out in the table below together with the sources of income from which the Authority's net revenue expenditure was financed.

2016/17	**Budget**	**Outturn**	**Variance**	**Carry forwards**	**Variance**
	£m	**£m**	**£m**	**£m**	**£m**
Children & Family Services	61.1	59.9	(1.2)	0.1	(1.1)
Adults & Communities	138.1	127.2	(10.9)	0.0	(10.9)
Public Health	(2.5)	(3.0)	(0.5)	0.4	(0.1)
Environment & Transport	72.4	70.6	(1.8)	0.2	(1.6)
Chief Executives	10.0	9.6	(0.4)	0.1	(0.3)
Corporate Resources	36.6	35.5	(1.1)	0.0	(1.1)
Contingencies	15.2	0.0	(15.2)	0.0	(15.2)
Central Items	30.6	27.8	(2.8)	0.0	(2.8)
Contribution from Earmarked Funds	(1.0)	(1.0)	0.0	0.0	0.0
Approved additional commitments	0.0	32.7	32.7	0.5	33.2
	360.5	359.3	(1.2)	1.3	0.1
Funded by:					
Revenue Support Grant	(37.0)	(37.0)	0.0	0.0	0.0
Business Rates	(58.5)	(58.6)	(0.1)	0.0	(0.1)
Council Tax	(251.2)	(251.2)	0.0	0.0	0.0
Carry forwards from 2015/16	(13.8)	(13.8)	0.0	0.0	0.0
	(360.5)	(360.6)	(0.1)	0.0	(0.1)
NET OUTTURN	**0.0**	**(1.3)**	**(1.3)**	**1.3**	**0.0**

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

Review of the Year - Income and Expenditure

In overall terms the Authority underspent against the updated budget by £1.3m, which is offset by carry forwards. The significant underspends against the budget are set out as follows:

Underspends

Children and Family Services (£1.2m gross, £1.1m net)

The underspend mainly relates to the Children Placements budget (£1.6m), with other underspends on Targeted Early Help (£0.4m), Education Learning and Skills (£0.4m) and Educational Psychology (£0.2m). The Children Placement underspend is after growth of £7.9m was allocated. Although the increase in expenditure on high cost placements has reduced the overall number of looked after children continues to rise at a significant rate, of circa 8% per annum. This is putting the budget under increasing pressure.

These underspends are offset by overspends due to agency costs related to the interim departmental management (£0.5m), increased numbers of care cases funded from the social care legal budget (£0.4m) and increased demand on the unaccompanied asylum seeking children budget (£0.4m).

Adults and Communities (£10.9m gross and net)

The main underspend relates to Home Care (£5.9m), due to predicted service user growth not being required (£1.8m) and a reduction in the number of service users, changes in price and size of packages (£4.1m).

There is an underspend of £2.1m on the Direct Payment budget, due to clawback of unspent cash payment balances (£1.0m), an increase in grant funding (£0.3m) and predicted growth in numbers of service users not materialising (£1.4m). This is offset by an increase in the average package price (£0.5m) and an increase in one-off payments (£0.1m).

There is a net underspend of £1.1m on the Residential and Nursing Care budget, due to additional health contributions (£2.9m), increased client income (£0.7m) and a reduction in the bad debt provision (£0.1m), offset by additional expenditure on social care provision due to an increase in payments for additional needs (£1.1m), backdated arrears to previous years (£0.6m) and an increase in short stay and new care packages (£1.0m).

Other underspends include £1.7m arising from increased income from continuing health care, vacancy management to achieve 2017/18 savings (£1.3m) and an additional contribution from the Better Care Fund (£0.7m) to fund inflationary costs on residential and homecare services.

These underspends are offset by increased Supported Living costs (£0.4m) arising from an increase in the number of hours being provided, increased Court of Protection costs (£0.2m), loss of Department of Health Deprivation of Liberty Safeguards (DOLS) Grant (£0.2m) and by not charging some of the additional staffing costs of the departmental to earmarked funds (£0.9m).

Public Health (£0.5m gross, £0.1m net)

The underspend mainly relates to the early achievement of savings targets and planned service delivery changes.

Environment and Transport (£1.8m gross, £1.6m net)

There is a net underspend of £1.2m on Highways maintenance budgets, mainly from lower energy costs due to acceleration of the street lighting LED installation programme.

There is an overspend on Special Educational Needs transport (£0.5m) due to a steady increase in the number of pupils coming through the system over and above the additional growth already built into the 2016/17 budget. There is also an overspend on Social Care transport (£0.2m) due to increased demand. There are savings on Public Bus Services (£0.2m) due to savings made through tendering of the Park & Ride contract and other contract cost reductions, and an underspend of £0.4m due to lower usage of Mainstream School Transport.

Environment and Waste budgets are underspent by £0.7m, mostly through more cost effective waste treatment and lower waste tonnages.

Chief Executives (£0.4m gross, £0.3m net)

This underspend mainly relates to staff vacancies and increased income, partly offset by an overspend of £0.2m on the Coroners Service, relating to increased running costs and investigations linked to the rising number of Deprivation of Liberty cases.

Corporate Resources (£1.1m gross and net)

Underspends mainly relate to staff vacancies held ahead of impending staff reviews and early restructures (£1.3m), offset by investment of £0.2m in new infrastructure for commercial activities to take the commercial agenda to generate future benefits.

Contingencies (£15.2m gross and net)

The original budget included a contingency of £17.2m for inflation, to which a carry forward of £0.9m from the 2015/16 budget was added. Allocations of £10.9m have been made to departments for pay awards, the Adult Social Care fee review, a major change to National Insurance, an increase in pension contribution rates, transport inflation and for several other minor items. The balance of £7.2m has not been required.

The original budget included a contingency of £8m against delays in the achievement of savings. No major problems have been identified resulting in the contingency being released during 2016/17 to provide funding for initiatives that reduce future budget pressures.

Central Items (£2.8m, gross and net)

The main underspends relate to:

- Bank and other interest (£0.4m). Additional interest has also been achieved due to the Authority's investment of £20m in pooled property funds during 2015/16 and 2016/17.
- Financing of capital (£0.6m), due to the Authority's strategy to take opportunities to utilise one-off revenue balances and earmarked reserves to continue to reduce debt.
- Financial Arrangements (£0.8m) mainly relating to dividend income from the Eastern Shires Purchasing Organisation (ESPO) being accrued to 2016/17 rather than being recognised when the cash is received.
- Prior year adjustments (£0.9m), mainly relating to a detailed review of prior year open purchase orders that are no longer required (£1.0m), car leasing self-insurance and provisions no longer required (£0.5m), release of various small unidentified receipts (£0.2m), offset by the potential non recovery of aged credit notes not yet taken (£0.8m).

Business Rates (£0.1m gross and net)

Additional income of £0.1m has been received regarding government grants relating to compensation for the loss of business rates income arising from a number of government policy decisions, including a further extension of the temporary increase in Small Business Rate Relief and the 2% cap on business rates in 2014/15 and 2015/16.

Overspends

Children and Family Services – Services funded from Dedicated Schools Grant

There has been a net overspend of £2.4m on services funded from the Dedicated Schools Grant (DSG). The overspend mainly relates to the High Needs Block as a result of continuing pressure on the Special Educational Needs (SEN) placement budgets due to increased demand at special schools and an increase in the number of pupils diagnosed with Autism Spectrum Disorder (ASD), resulting in an overspend of £2.0m. A programme of work has been established through the Transformation Programme to reduce all High Needs expenditure overseen by a Project Board. Work streams include the commissioning of placements and the remodelling of Specialist Teaching Services. This programme of work must deliver sustainable future savings as the current level of expenditure on High Needs cannot be contained within the Government grant.

A number of actions are in place to reduce costs. This includes expansion of local provision for pupils with ASD and increased support for primary schools to enable the retention of primary age pupils within mainstream schools to reduce the need for more costly specialist provision. Although the overspend can be met from the DSG earmarked fund, it is a major concern. To balance the budget over the medium term the pace and scale of actions will need to be maintained.

Additional Commitments

The Cabinet in October 2016 approved the use of £15.6m of the forecast underspend at that time (based on monitoring at the end of August) to fund investments in projects that reduce liabilities and ongoing costs, generate or increases income and offset areas of high demand and pressure. The approved areas of investment included highways maintenance (£5m), the Asset Investment Fund (£5m), Transformation / Invest to Save (£3.6m), vehicle replacements (£1m) and energy schemes (£1m).

As part of the 2017-21 MTFS a further £6.1m, arising from forecast additional 2016/17 underspends identified between September and November 2016, was added to the fund the overall capital programme 2017-21.

The Cabinet agreed in March 2017 to provide investment of £0.5m for a speed awareness pilot. This forms a carry forward to 2017/18.

Further additional commitments of £11.0m were approved by Cabinet in June 2017 to use the balance of the overall underspend to provide additional funding for Capital Programme future developments (£8.5m), Transformation (£2m) and Waste Strategy implementation (£0.5m)

Difference between the Budget and the Comprehensive income and Expenditure Statement

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

Review of the Year – Capital

In 2016/17 the Authority spent £98.7m on capital projects (£87.0m in 2015/16). The following table shows the main areas of expenditure.

Department	2016/17 Outturn £m	2015/16 Outturn £m
Children & Family Services	33.1	31.4
Adults and Communities	4.5	3.1
Public Health	0.3	0.0
Environment and Transportation - Transportation	44.0	40.0
Environment and Transportation - Waste Management	0.1	0.3
Chief Executive (Rural Broadband Scheme)	2.5	3.3
Corporate Resources (ICT, County Farms)	4.3	3.4
Corporate Programme	9.9	5.5
Total	**98.7**	**87.0**

The above expenditure was financed through several sources, the details of which appear in note 41 to the financial statements.

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

	£m
Children and Family Services	
School Accommodation – additional places	19.0
Strategic Capital Maintenance	2.8
Environment & Transportation	
LED Street Lighting	12.2
Roads and Carriageways	10.3
M1 Bridge	5.3
M1 Junction 22	3.9
Lubbesthorpe Strategic Employment Site Access	3.3
Hinckley Area Project	1.7
Leicester North West Project	1.2
Chief Executives	
Rural Broadband Scheme – Phase 2	2.2
Corporate Resources	
ICT Resilience: Data Centre Reprovisioning	1.3
Virtual Desktop Integration (VDI)	1.0
Corporate Programme	
Harborough Accelerator Zone, Airfield Farm purchase	4.6
North Kilworth, Walton Holt Farm purchase	3.5

Current Borrowing / Investments

The capital financing requirement (CFR) shown in note 41 to the financial statements measures the Authority's need to borrow for capital purposes. The total of non current assets at the Balance Sheet date was £945.1m (2015/16 £907.0m). The CFR was £267.7m (2015/16 £283.6m) and actual debt was £274.6m (£275.1m). The difference between the CFR and the actual debt is the temporary use of working cash balances held by the Authority. During 2016/17 no new loans were raised (£0m 2015/16). Details of the loans held by the Authority are shown in note 46 to the financial statements. The level of capital borrowing is within the Authority's 2016/17 Prudential Indicators that inform the Authority whether its capital investment plans are affordable, prudent and sustainable.

Investments made by the Authority total £215.7m as at 31 March 2017 (2015/16 £156.5m). Investments are made in accordance with the Annual Investment Strategy that ensures that deposits are only made with financial institutions that meet certain minimum credit criteria as laid down by the Authority's Treasury Management advisors. During 2016/17 the Authority invested £5m of earmarked reserves in Pooled Property funds, total £20m held. The investments are held in UK pooled property funds which in effect has moved £20m from earning 0.5% p.a. to circa.3.5% p.a. in income.

Academy Schools

During 2016/17 fourteen schools transferred to Academy Status resulting in the net book value of the schools, £15m being written out of the Authority's Balance Sheet through the Other Operating Expenditure section of the Comprehensive Income and Expenditure Statement. These entries are reversed out via the Movement in Reserves Statement and do not have an impact on the General County Fund. The Authority has no choice in whether to transfer these assets and does not receive any consideration for their transfer. Further transfers of schools to Academy Status are expected in 2017/18 and later years.

Local Government Pension Scheme

The Authority participates in the Local Government Pension Scheme (LGPS) for the majority of its non-teaching employees (who are members of the Department for Education Teachers Pension Scheme). The net pension liability for the Authority was estimated to be £615m as at 31 March 2017 compared with £524m as at 31 March 2016. The position has deteriorated mainly due to an increase in liabilities as a result of a decrease in the net discount rate over this period and an increase in the assumptions used for future inflation rates and salary increases. The discount rate is the main contributor and is used to place a value on the liabilities. The rate is referenced to the market yields on high quality corporate bonds, which have shown a long term increase over the duration of the expected liabilities resulting in a lower value being placed on liabilities.

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

Cyber-Attacks

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

Fire Regulation and Compliance

Following the tragic events at Grenfell House in West London in June 2017, the County Council commenced an immediate review of its fire risk management processes.

This included a review of the fire risk assessment process and a further review of how material, such as cladding and insulation products, are specified in all construction projects. These materials in part, appear to be involved in the rapid spread of fire at Grenfell House.

To date, no similar type of cladding and insulation products (aluminium cladding with polyethylene slab insulation panels) have been identified in County Council directly managed projects, although checks are ongoing.

Non-Financial Performance

The Authority's Strategic Plan 2014 - 2018 sets out the Authority's priorities and high level targets to May 2018. Performance against these targets is reported on a quarterly basis. A full annual report including benchmarking of performance compared to other local authorities will be produced in autumn 2017.

Provisional 2016/17 performance results for a basket of key performance indicators are set out in the following table.

Indicator	Strategic Plan Target	2016/17	2015/16
CORPORATE PERFORMANCE			
% Residents think the Authority is doing a good job		56.2%	57.2%
% Residents agree that the Authority provides value for money		69.8%	73.8%
% of the workforce that feels that LCC is committed to equality & diversity	90%	91.9%	91.9%
ENABLING ECONOMIC GROWTH			
Productivity and competitiveness (Gross Value Added to local	£23,500	£22,689	£22,053

Indicator	Strategic Plan Target	2016/17	2015/16
economy per head) (Leics & Rutland)			
% of population with access to high speed broadband	93.8%	94%	91%
3 year business survival rate	57.1%	62.8%	63.1%
TRANSPORT & ROAD SAFETY			
% of the classified road network (A, B and C class roads) where structural maintenance should be considered	5-6%	2%	2%
People killed or seriously injured in road traffic accidents	<167	225	234
Total casualties on our roads.	<1,494	1,705	1,685
HEALTH & SOCIAL CARE INTEGRATION			
Permanent admissions of older people to residential and nursing care homes per 100,000 pop (ASCOF 2A Pt II)	606.4	633.5	642.3
% of older people (65 and over) who were still at home 91 days after discharge from hospital into reablement services	84.2%	86.5%	87.5%
Delayed transfers of care from hospital per 100,000 population (Better Care Fund)	312.2	377.1	315.0
PUBLIC HEALTH			
% of adults classified as overweight or obese (Leics)	63.6%	64.7%	64.7%
Excess weight in primary school age children in Reception	19.9%	21.3%	20.3%
Excess weight in primary school age children in Year 6	31.3%	31.3%	30.0
Under 18 conception (rate per 1,000 females aged 15-17) (Leics)	24.2	16.3	18.5
CHILDREN & FAMILIES			
% of child protection cases which were reviewed within required timescales	100%	100%	99.1%
% of care leavers aged 19, 20 and 21 in education, employment or training	50.5%	56%	49%
% of care leavers aged 19, 20 and 21 in suitable accommodation	88.5%	90%	88%
% of schools assessed as good or outstanding	>84%	89.5%	87%
SAFER COMMUNITIES – BETTER ENVIRONMENT / PLACE			
Number of first time entrants to the criminal justice system aged 10 - 17		126	124
% of people stating that they feel that the police and other local public services are successfully dealing with ASB and crime in their local area		84.5%	92.0%
% of household waste sent by local authorities for reuse, recycling, composting etc.	Increase	n/a*	50.4%

n/a - data not currently available*

Future Prospects

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

The Authority's Medium Term Financial Strategy (MTFS) agreed in February 2017 is based on a council tax increase of 3.99% for 2017/18, including 2% regarding an adult social care precept agreed by Central Government, followed by annual increases of 3.99% in the following two years and a 1.99% increase for 2020/21. The MTFS assumes that the level of Government funding will decline by a further 47% over the four years of the MTFS. The Chancellor of the Exchequer's 2015 Autumn statement confirmed that the Government plans to eliminate the current public sector deficit by 2019/20 with significant implications for the public sector. Local Government is the area that continues to face the largest reduction in funding. As a result the Authority faces an extremely challenging financial environment with a requirement to make significant savings over the medium term. The result of the UK European Union referendum in June 2016 to leave the EU has created further uncertainty to public sector funding with some early commentators forecasting that the public sector austerity may continue for a further two years than previously forecast to 2021/22.

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

- Non-achievement of savings and income targets. The requirement for savings and additional income totals £66m over the next four years of which £23m is unidentified.
- Service pressures resulting in an overspend. There are increasing pressures within Adults and Children's social care. In 2015/16 the children's placement budget overspent and the acute pressure on national health services is likely to result in higher demand for social care services in the future.
- There is a risk that the element of the Better Care Fund that is available to support adult social care services does not continue in the later years of the MTFS.
- Public finances continue to deteriorate with the potential for further reductions beyond the four year allocations announced by central government.

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

- Children and Family Services (£8.1m). This includes reducing costs for social care placements, managing demand and reviewing early help and prevention services.
- Adults and Communities (£11m). This includes managing demand and reducing costs of social care by reviewing personal budget allocations and contracts.
- Public Health (£2.3m). This includes savings from reviewing early help and prevention services.
- Highways and Transportation (£8m). Savings will be delivered through a revised approach to Highways Maintenance, reviewing contracts, service reviews and by making savings from the continued roll-out of the LED street lighting.
- Environment (£3.2m). Service delivery reviews for Recycling and Household Waste Sites and a revised payment mechanism for recycling credits are planned.
- Chief Executive (£1.1m). This includes service reviews and seeking to achieve increased income.
- Corporate Resources (£5.6m). This includes reviews of all support services e.g. Property, ICT, Human Resources and Finance and an increased contribution from Commercial Services.
- Central Items/ Funding (£5.3m). This includes savings from a revised Minimum Revenue Provision policy and a review of Council Tax and Business Rates.

It is estimated that the proposals would lead to a reduction of up to 400 posts (full time equivalents) over the four-year period. However, it is expected that the number of compulsory redundancies will be lower, given the scope to manage the position over the period through staff turnover and vacancy control.

To help bridge the gap a number of initiatives are under development to generate further savings. Once business cases have been completed savings will be confirmed and included in a future MTFS. The initiatives are:

- Review of the County Council's role in running schools.
- Disabled Children's Respite Care – review of service models.
- Education of Children in Care - review current service model and offer.
- Lower cost adult social care provision – review of different models.
- Whole life disability – consider options to deliver fully integrated care pathways.
- Promoting independence in the home for high dependency service users.
- Social Care and SEN Transport – review of initiatives to reduce spend and offset growth pressures.
- Increased revenues from Asset Investments – from new investments.
- Integrated ICT Systems – review common systems and increase joint working with partners.
- Review Structures and Delivery Models - review the Target Operating Model and the balance between externally provided and in-house services.
- Proactively Manage Demand - manage customer expectations for council services.

- Commercialism – review of new opportunities and consideration of alternative delivery models.
- Commissioning and Procurement – develop an improved more targeted approach.
- People and Performance Management – further improving performance and productivity.
- Digital Services - help people do things for themselves.
- Property Initiatives – maximise the use of buildings and reduce costs of accommodation and/or realise capital receipts.

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

Changes in Accounting Standards

There were no material changes in accounting standards for 2016/17.

During 2016/17, the Chartered Institute of Public Finance and Accountancy (CIPFA) have postponed until further notice the requirement to value Highways Network Assets (HNA) - currently called Infrastructure Assets – on a depreciated replacement cost basis instead of depreciated historic cost basis. If this measurement basis is implemented in the future it will be a major change to the values included on the Authority's balance sheet. Initial estimates value HNA to be around £8.7bn including land compared with the current £354.8m for infrastructure assets included in the balance sheet at 31 March 2017.

Contents of the Statement of Accounts

The Statement of Accounts sets out the Authority's income and expenditure for the year, and its financial positions as at 31 March 2017. 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 2016/17, which in turn is underpinned by International Financial Reporting Standards. The primary financial statements are:

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

This financial statement shows the movement during the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves. This statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The net increase/ decrease line shows the statutory general fund balance movements in the year following those adjustments.

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

This financial statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Authority raises taxation to cover expenditure in accordance with statutory regulations which may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis note to the accounts, and the Movement in Reserves Statement. The CIES has two sections:

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

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

The 2016/17 CIPFA Code of Practice has changed the segmental reporting arrangements for services within the CIES to now report performance on the basis of how they are structured and managed within the Authority rather than the previously prescribed format. As a result the 2015/16 comparative amounts for services have also been restated to the new format.

- ***Balance Sheet:***

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

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

- ***Cash Flow Statement:***

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

- ***Pension Fund:***

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

Date of Authorisation of Accounts

The accounts were authorised for issue by the Director of Finance on the 29 September May 2017. This was the last date when events after the Balance Sheet date have been considered.

C TAMBINI
DIRECTOR OF FINANCE
29 SEPTEMBER 2017

Movement In Reserves Statement

Movement In Reserves During 2016/17

	General Fund Balance £m	Earmarked Reserves balance £m	Total Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m	Note
Balance at 31 March 2016 Brought Forward	**40.4**	**90.6**	**131.0**	**11.0**	**5.9**	**147.9**	**89.5**	**237.4**	
Total Comprehensive Expenditure and Income	4.3	0.0	**4.3**	0.0	0.0	**4.3**	(28.3)	**(24.0)**	13, 14, 15
Adjustments between accounting basis & funding basis under regulations	(18.9)	18.8	**(0.1)**	(8.3)	12.4	**4.0**	(4.0)	**0.0**	8
Increase/ (Decrease) in Year	(14.6)	18.8	**4.2**	(8.3)	12.4	**8.3**	(32.3)	**(24.0)**	
Balance at 31 March 2017 Carried Forward	**25.8**	**109.4**	**135.2**	**2.7**	**18.3**	**156.2**	**57.2**	**213.4**	

Movement In Reserves During 2015/16

	General Fund Balance £m	Earmarked Reserves balance £m	Total Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m	Note
Balance at 31 March 2015 Brought Forward	**27.2**	**103.3**	**130.5**	**14.0**	**6.0**	**150.5**	**(187.2)**	**(36.7)**	
Total Comprehensive Expenditure and Income	14.6	0.0	**14.6**	0.0	0.0	**14.6**	259.5	**274.1**	13, 14, 15
Adjustments between accounting basis & funding basis under regulations	(1.4)	(12.7)	**(14.1)**	(3.0)	(0.1)	**(17.2)**	17.2	**0.0**	8
Increase/ (Decrease) in Year	13.2	(12.7)	**0.5**	(3.0)	(0.1)	**(2.6)**	276.7	**274.1**	
Balance at 31 March 2016 Carried Forward	**40.4**	**90.6**	**131.0**	**11.0**	**5.9**	**147.9**	**89.5**	**237.4**	

Comprehensive Income and Expenditure Statement

RESTATED 2015/16 Gross Expenditure £m	Gross Income £m	Net Expenditure £m		Note	2016/17 Gross Expenditure £m	Gross Income £m	Net Expenditure £m
			CONTINUING SERVICES				
63.9	(23.2)	40.7	Corporate Resources Department		69.8	(25.3)	44.5
15.4	(5.2)	10.2	Chief Executive's Department		14.5	(7.3)	7.2
310.5	(220.4)	90.1	Children and Family Services Department		334.8	(225.4)	109.4
93.4	(23.5)	69.9	Environment and Transport Department		87.1	(24.5)	62.6
231.8	(86.1)	145.7	Adults and Communities Department		232.2	(87.7)	144.5
25.9	(25.8)	0.1	Public Health Department		28.3	(28.2)	0.1
6.8	(1.9)	4.9	Central Items		6.7	(1.8)	4.9
747.7	**(386.1)**	**361.6**	**NET COST OF SERVICES**		**773.4**	**(400.2)**	**373.2**
0.3	(0.9)	(0.6)	Other Operating Expenditure (Excluding transfer of Academies)	13	0.3	(0.4)	(0.1)
13.4	0.0	13.4	Other Operating Expenditure (Transfer of Academies)	6	15.0	0.0	15.0
39.6	(4.2)	35.4	Financing and Investment Income and Expenditure	14	34.3	(5.4)	28.9
0.0	(424.4)	(424.4)	Taxation and Non-specific Grant Income	15	0.0	(421.3)	(421.3)
		(14.6)	**(SURPLUS) / DEFICIT ON PROVISION OF SERVICES**				**(4.3)**
			Items that will not be reclassified to the (surplus) or deficit on the provision of services:				
		(25.0)	Surplus on Revaluation of Property, Plant and Equipment			(note 17)	(45.0)
		(235.4)	Remeasurement of the Net Defined Benefit Liability/(Asset)			(note 16)	73.4
		(260.4)	**Total Items that Will Not Be Reclassified to the (Surplus) or Deficit on the Provision of Services**				**28.4**
			Items that will may be reclassified to the (surplus) or deficit on the provision of services:				
		0.9	Deficit on the Revaluation of Available for Sale Financial Assets			(note 10)	(0.1)
		0.9	**Total Items that May Be Reclassified to the (Surplus) or Deficit on the Provision of Services**				**(0.1)**
		(259.5)	**OTHER COMPREHENSIVE INCOME AND EXPENDITURE**				**28.3**
		(274.1)	**TOTAL COMPREHENSIVE INCOME AND EXPENDITURE**				**24.0**

Balance Sheet

31 March 2016 £m		Note	31 March 2017 £m	
452.7	Land and Buildings	17	463.8	
11.6	Vehicles, Plant, Furniture & Equipment	17	11.2	
326.0	Infrastructure Assets	17	354.8	
11.3	Community Assets	17	11.3	
30.5	Assets Under Construction	17	30.5	
3.3	Surplus Assets	17	3.2	
835.4	**Total Property, Plant and Equipment**			**874.8**
0.9	Investment Property	19	1.1	
4.5	Heritage Assets	18	4.5	
2.1	Intangible Assets	17	2.4	
14.1	Long Term Investments	20	19.2	
50.0	Long Term Debtors	22	43.1	
907.0	**TOTAL NON-CURRENT ASSETS**			**945.1**
3.4	Assets Held for Sale	17	2.3	
0.6	Current Intangible Assets	17	0.4	
2.2	Inventories	21	2.5	
71.8	Short Term Debtors	23	77.0	
44.1	Cash and Cash Equivalents	24	23.4	
142.4	Short Term Investments	20	196.5	
264.5	**TOTAL CURRENT ASSETS**			**302.1**
(3.9)	Short Term Borrowing	20	(13.4)	
(102.8)	Short Term Creditors	26	(109.3)	
(1.1)	Short Term Capital Grants Receipts in Advance	38	(2.5)	
(0.1)	Short Term Finance Lease Liabilities	42	(0.0)	
(3.6)	Short Term Provisions	27	(3.8)	
0.0	Bank Overdraft	24	0.0	
(111.5)	**TOTAL CURRENT LIABILITIES**			**(129.0)**
(277.5)	Long Term Borrowing	20	(267.5)	
(1.4)	Long Term Finance Lease Liabilities	42	(1.4)	
(3.6)	Long Term Creditors	25	(3.4)	
(4.5)	Long Term Provisions	27	(4.0)	
(523.7)	Net Pensions Liability	10	(614.5)	
(11.9)	Long Term Capital Grants Receipts in Advance	38	(14.0)	
(822.6)	**TOTAL NON-CURRENT LIABILITIES**			**(904.8)**
237.4	**NET ASSETS / (LIABILITIES)**			**213.4**
40.4	General County Fund	11	25.8	
90.6	Earmarked Revenue Reserves	12	109.4	
11.0	Capital Receipts Reserve		2.7	
5.9	Capital Grants Unapplied		18.3	
147.9	**TOTAL USABLE RESERVES**			**156.2**
221.0	Revaluation Reserve	10	247.7	
(0.9)	Available for Sale Financial Instruments Reserve	10	(0.8)	
399.4	Capital Adjustment Account	10	430.2	
(5.4)	Financial Instruments Adjustment Account	10	(5.2)	
(523.7)	Pension Reserve	10	(614.5)	
3.7	Collection Fund Adjustment Account	10	5.4	
(4.6)	Accumulated Absences Account Account	10	(5.6)	
89.5	**TOTAL UNUSABLE RESERVES**			**57.2**
237.4	**TOTAL RESERVES**			**213.4**

Cash Flow Statement

2015/16 £m		Note	2016/17 £m	2016/17 £m
(14.6)	Net (surplus) / deficit on the provision of services		(4.3)	
(87.4)	Adjust net (surplus) / deficit on the provision of services for non cash movements	28	(91.1)	
54.0	Adjust for items included in the net (surplus) / deficit on the provision of services that are investing and financing activities	28	36.9	
12.1	Net Cash flows from Operating Activities	29	11.7	
(35.9)	Total Net cash flows from Operating Activities			(46.8)
71.7	Net cash flows from Investing Activities	30		67.0
11.6	Net cash flows from Financing Activities	31		0.5
47.4	**Net (Increase)/Decrease in Cash and Cash Equivalents**			**20.7**
(91.5)	**Cash and Cash Equivalents at the Beginning of the Reporting Period**			**(44.1)**
(44.1)	**Cash and Cash Equivalents at the End of the Reporting Period**			**(23.4)**

The notes to the financial statements are detailed on pages 18 - 95.

Notes to the Accounts

Note 1: Expenditure and Funding Analysis (a)

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

Expenditure & Funding Analysis

2015/16				2016/17		
Net Expenditure Chargeable to the GCF	Adjustments between Funding and Accounting Basis	Net Expenditure in the CIES	Service Segment	Net Expenditure Chargeable to the GCF	Adjustments between Funding and Accounting Basis	Net Expenditure in the CIES
£m	£m	£m		£m	£m	£m
29.9	10.8	40.7	Corporate Resources Department	32.3	12.2	44.5
6.1	4.1	10.2	Chief Executives' Department	5.9	1.3	7.2
65.8	24.3	90.1	Children and Family Services Department	73.2	36.2	109.4
51.3	18.6	69.9	Environment and Transport Department	47.6	15.0	62.6
130.2	15.5	145.7	Adults and Communities Department	132.9	11.6	144.5
(0.3)	0.4	0.1	Public Health Department	(0.1)	0.2	0.1
4.9	0.0	4.9	Central Items	4.9	0.0	4.9
287.9	**73.7**	**361.6**	**Net Cost of Services**	**296.7**	**76.5**	**373.2**
(288.4)	(87.8)	(376.2)	Other Income and Expenditure	(300.9)	(76.6)	(377.5)
(0.5)	**(14.1)**	**(14.6)**	**(Surplus) or Deficit**	**(4.2)**	**(0.1)**	**(4.3)**
		(130.5)	Opening GCF Balances			(131.0)
		(0.5)	Less/Plus Surplus or (Deficit) on General Fund balance in year			(4.2)
		(131.0)	**Closing General Fund Balance**			**(135.2)**

Note 2: Expenditure and Funding Analysis (b)

This note provides reconciliation for the main adjustments to Net Expenditure chargeable to the General County 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 2016/17

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

Adjustments Between Funding and Accounting Basis 2015/16

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				
Corporate Resources Department	5.1	5.5	0.2	**10.8**
Chief Executives' Department	1.6	2.5	0.0	**4.1**
Children and Family Services Department	15.5	9.7	(0.9)	**24.3**
Environment and Transport Department	14.3	4.3	0.0	**18.6**
Adults and Communities Department	9.6	5.8	0.1	**15.5**
Public Health Department	0.0	0.4	0.0	**0.4**
Central Items	0.0	0.0	0.0	**0.0**
Net Cost of Services	46.1	28.2	(0.6)	**73.7**
Other Income and Expenditure from the Expenditure and Funding Analysis	(86.5)	0.0	(1.3)	**(87.8)**
Difference between the GCF surplus or deficit and the CIES surplus or deficit on provision of services	**(40.4)**	**28.2**	**(1.9)**	**(14.1)**

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

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

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

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

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

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

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

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

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

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

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

2015/16 Income from Services £m	Service Segment	2016/17 Income from Services £m
(32.8)	Corporate Resources Department	(31.7)
(9.7)	Chief Executives' Department	(8.0)
(228.5)	Children and Family Services Department	(229.2)
(26.8)	Environment and Transport Department	(25.0)
(89.0)	Adults and Communities Department	(94.5)
(25.8)	Public Health Department	(28.3)
(0.0)	Central items	(6.3)
(412.6)	**Total Income Analysed on a Segmental Basis**	**(423.0)**

Note 3: Expenditure and Funding Analysis (c)

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

2015/16 £m		2016/17 £m
	Expenditure	
268.3	Employee Benefits Expenses	276.9
35.0	IAS 19 and Other Pension Cost Adjustments	24.6
429.2	Other Service Expenses	439.9
39.4	Depreciation, amortisation and impairment	50.7
15.9	Interest Payments	16.0
0.3	Precepts and Levies	0.3
12.5	Loss on Disposal of Non-Current Assets	14.4
800.6	**Total Expenditure**	**822.8**
	Income	
(156.9)	Fees, Charges and Other Income	(170.3)
(4.0)	Interest and Investment Income	(4.6)
(233.4)	Council Tax, NDR and Business Rates	(247.5)
(420.8)	Government Grants and Contributions	(404.1)
(0.1)	(Surplus) on Trading Accounts	(0.6)
(815.2)	**Total Income**	**(827.1)**
(14.6)	**Surplus or Deficit on Provision of Services**	**(4.3)**

Note 4: Critical Judgements in Applying Accounting Policies

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

- Municipal Mutual Insurance Limited (MMI), the Authority's former insurer between November 1969 and October 1991, ceased writing insurance business owing to financial difficulties in September 1992. MMI made a scheme of arrangement with its creditors in the event of the company becoming insolvent. The latest financial information for MMI shows overall net liabilities of £7.5m. At this stage, the scheme administrators do not intend to request any contributions, however the position continues to be regularly monitored and if it becomes probable that a transfer of future economic benefits will be required a Provision will be established.

- The Authority has determined that the East Midlands Shared Services Joint Committee meets the definition of a jointly controlled operation. The Authority has therefore accounted for its share of the Joint Committee's income and expenditure within its accounts as detailed in note 40.

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

Note 5: Assumptions Made about the Future and Major Sources of Estimation Uncertainty

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

The items in the Authority's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Items	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate presents uncertainty as to whether the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The carrying value of Property, Plant and Equipment at 31 March 2017 is £874.8m.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for Property, Plant and Equipment would increase by £2.1m for every year that useful lives had to be reduced.
Insurance Reserve	The Insurance Reserve is held to meet the estimated costs of future claims to enable the Council to meet excesses not covered by insurance policies. There is uncertainty that the Authority may have to meet potential liabilities arising from its failed former insurers. Municipal Mutual Insurance Limited (MMI) that is subject to a run-off of claims following its closure to insurance business in 1992 and the Independent Insurance Company Limited that had entered liquidation. The latest accounts of MMI show a net liability of £7.5m as at the end of December 2016. The position is after the imposition of a levy on scheme members in recent years to 25% in March 2016 from 15% imposed in April 2014, at a total cost to the Authority of £3.7m.	The position is regularly reviewed to ensure that there are sufficient funds in the insurance reserve to fund future uninsured liabilities. As at 31 March 2017 the Insurance Reserve has a balance of £20.2m as shown in note 12.

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 Pension Liability at 31 March 2017 is £614.5m	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £169.3m. A one year increase in member life expectancy compared with the assumption used would increase the liabilities by between £54.5m and £90.8m. However, the assumptions interact in complex ways. During 2016/17, the Authority's actuaries advised that the net pension liability had decreased by £221.0m as a result of estimates being corrected as a result of experience and increased by £295.5m attributable to updating of the assumptions.
Debtors	At 31 March 2017, the Authority had a balance of sundry debtors of £20.0m and secured memo debt (elderly persons debt secured against properties) of £4.6m. Provisions for doubtful debts are maintained for certain categories of income by individual departments. However in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment for doubtful debts would require an additional £2.4m to be set aside as an allowance.

Note 6: Material Items of Income and Expense

During 2016/17 fourteen schools transferred to Academy Status resulting in the net book value of the schools, £15.0m (2015/16 five schools at £13.4m) being written out of the Authority's Balance Sheet through the Other Operating Expenditure section of the Comprehensive Income and Expenditure Statement (CIES). These entries are reversed out via the Movement in Reserves Statement and do not have an impact on the General County Fund. The Authority has no choice in whether to transfer these assets and does not receive any consideration for their transfer. Further transfers of schools to Academy Status are expected in 2017/18 and later years.

When schools become Academies the pension fund assets and liabilities of the schools, as assessed by the Actuary at the time of transfer, are transferred from the Authority's pension scheme to separate pension funds within the Local Government Pension Scheme. For 2016/17 there was an overall net reduction in liabilities to the Authority's pension scheme totalling £2.4m (2015/16 £3.6m) on settlement which has been credited to the Non Distributed Cost line in the CIES.

Note 7: Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Director of Finance on 31 May 2017. 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 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2017 as they provide information that is relevant to an understanding of the Authority's financial position, but do not relate to conditions at that date:

A further two schools have transferred to Academy Status by the authorised for issue date.

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

Note 8: Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

General County Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

Note 9: Usable Reserves

	Usable Reserves			
2016/17	**General County Fund Balance £m**	**Capital Receipts Reserve £m**	**Capital Grants Unapplied £m £m**	**Movement in Unusable Reserves £m**
Adjustments primarily involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Non-current asset depreciation and impairment	25.8	0.0	0.0	**(25.8)**
Revaluation losses on Property, Plant and Equipment	24.8	0.0	0.0	**(24.8)**
Amortisation of intangible assets	0.6	0.0	0.0	**(0.6)**
Capital grants and contributions	(48.8)	0.0	0.0	**48.8**
Revenue expenditure funded from capital under statute	6.2	0.0	0.0	**(6.2)**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	29.4	0.0	0.0	**(29.4)**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	(11.3)	0.0	0.0	**11.3**
Principal repayments of transferred Debt	1.9	0.0	0.0	**(1.9)**
Voluntary provision for the Repayment of Debt	(4.5)	0.0	0.0	**4.5**
Capital expenditure charged against the General Fund	(13.8)	0.0	0.0	**13.8**
Adjustments primarily involving the Capital Grants Unapplied Account				
Application of capital grants and contributions credited to the Comprehensive Income and Expenditure Statement yet to be applied	(12.4)	0.0	12.4	**0.0**
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(14.4)	14.4	0.0	**0.0**
Use of the Capital Receipts Reserve to finance new capital expenditure	0.0	(22.7)	0.0	**22.7**
Adjustments primarily involving the Financial Instruments Adjustment Account				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(0.2)	0.0	0.0	**0.2**

Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	17.5	0.0	0.0	**(17.5)**
Adjustments primarily involving the Collection Fund Adjustment Account				
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	(1.7)	0.0	0.0	**1.7**
Adjustments primarily involving the Short-term Accumulating Compensated Absences Adjustments Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1.0	0.0	0.0	**(1.0)**
Adjustments primarily involving Investment Property Fair Value Valuation				
Gains and losses on investment property fair value measurement are reversed out of the General County Fund to the Capital Adjustment Account as per statutory regulations	(0.2)	0.0	0.0	**0.2**
Total Adjustments	**(0.1)**	**(8.3)**	**12.4**	**(4.0)**

	Usable Reserves			
2015/16 Comparator	**General County Fund Balance £m**	**Capital Receipts Reserve £m**	**Capital Grants Unapplied £m**	**Movement in Unusable Reserves £m**
Adjustments primarily involving the Capital Adjustment Account ***Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement***				
Non-current asset depreciation and impairment	26.4	0.0	0.0	**(26.4)**
Revaluation losses on Property, Plant and Equipment	11.0	0.0	0.0	**(11.0)**
Amortisation of intangible assets	0.5	0.0	0.0	**(0.5)**
Capital grants and contributions	(64.8)	0.0	0.0	**64.8**
Revenue expenditure funded from capital under statute	8.2	0.0	0.0	**(8.2)**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	15.7	0.0	0.0	**(15.7)**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	(12.0)	0.0	0.0	**12.0**

Principal repayments of transferred Debt	2.1	0.0	0.0	**(2.1)**
Voluntary provision for the Repayment of Debt	(2.9)	0.0	0.0	**2.9**
Capital expenditure charged against the General Fund	(21.1)	0.0	0.0	**21.1**
Adjustments primarily involving the Capital Grants Unapplied Account				
Application of capital grants and contributions credited to the Comprehensive Income and Expenditure Statement yet to be applied	0.0	0.0	(0.1)	**0.1**
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(3.2)	3.2	0.0	**0.0**
Use of the Capital Receipts Reserve to finance new capital expenditure	0.0	(6.2)	0.0	**6.2**
Adjustments primarily involving the Financial Instruments Adjustment Account				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(0.3)	0.0	0.0	**0.3**
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	28.1	0.0	0.0	**(28.1)**
Adjustments primarily involving the Collection Fund Adjustment Account				
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	(1.2)	0.0	0.0	**1.2**
Adjustments primarily involving the Short-term Accumulating Compensated Absences Adjustments Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(0.6)	0.0	0.0	**0.6**
Total Adjustments	**(14.1)**	**(3.0)**	**(0.1)**	**17.2**

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.

2015/16 £m		2016/17 £m
202.0	**Balance at 1 April**	**221.0**
38.8	Upward revaluation of assets	64.6
(13.8)	Downward revaluation of assets losses not charged to the Surplus or (Deficit) on the Provision of Services	(19.6)
(2.6)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(15.4)
(3.4)	Difference between fair value depreciation and historical cost depreciation	(2.9)
221.0	**Balance at 31 March**	**247.7**

Available for Sale Financial Asset Account

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

2015/16 £m		2016/17 £m
0.0	**Balance at 1 April**	**(0.9)**
(0.9)	Change in Fair Value of Available for Sale Financial Instruments	0.1
(0.9)	**Balance at 31 March**	**(0.8)**

Capital Adjustment Account

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

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

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

2015/16 £m		2016/17 £m
350.2	**Balance at 1 April**	**399.4**
	Reversal of items relating to capital expenditure debited or credited to Comprehensive Income and Expenditure:	
(23.0)	Charges for depreciation of non-current assets	(23.6)
(11.0)	Revaluation losses on Property, Plant and Equipment	(24.7)
(0.5)	Amortisation of intangible assets	(0.6)
(8.2)	Revenue expenditure funded from capital under statute	(6.2)
(13.1)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(13.4)
	Capital financing applied in year:	
6.2	Use of the Capital Receipts Reserve to finance new capital expenditure	22.7
64.8	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	48.8
0.1	Application of grants to capital financing from the Capital Grants Unapplied Account	0.0
12.0	Statutory provision for the financing of capital investment charged against the General Fund Balance	11.3
2.9	Voluntary provision for the financing of capital investment charged against the General Fund Balance	4.5
(2.1)	Principal Repayments of transferred Debt	(2.0)
21.1	Capital expenditure charged against the General County Fund Balance	13.8
0.0	Movements in the Fair Value of Investment Properties	0.2
399.4	**Balance at 31 March**	**430.2**

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.

2015/16 £m		2016/17 £m
(5.7)	**Balance at 1 April**	**(5.4)**
	Amounts by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements:	
0.9	Annual write down of premiums paid on rescheduled debt	0.8
(0.6)	Annual write down of discounts received on rescheduled debt	(0.6)
(5.4)	**Balance at 31 March**	**(5.2)**

Pensions Reserve

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

2015/16 £m		2016/17 £m
(731.0)	**Balance at 1 April**	**(523.7)**
235.4	Remeasurements of the net defined benefit liability	(73.4)
(62.9)	Reversal of items relating to retirement benefits debited or credited to the Surplus or (Deficit) on the Provision of Services in the CIES	(51.7)
34.8	Employer's pensions contributions and direct payments to pensioners payable in the year	34.3
(523.7)	**Balance at 31 March**	**(614.5)**

Collection Fund Adjustment Account

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

2015/16 £m		2016/17 £m
2.5	**Balance at 1 April**	**3.7**
1.2	Amount by which council tax and non-domestic rating income credited to the CIES is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements.	1.7
3.7	**Balance at 31 March**	**5.4**

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.

2015/16 £m		2016/17 £m
(5.2)	**Balance at 1 April**	**(4.6)**
5.2	Settlement or cancellation of accrual made at the end of the preceding year	4.6
(4.6)	Amounts accrued at the end of the current year	(5.6)
0.6	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1.0
(4.6)	**Balance at 31 March**	**(5.6)**

Note 11: General Fund Balance

The balance of the fund as at 31 March 2017, £25.8m (2015/16 £40.4m), has the following earmarked sums:

2015/16 £m		2016/17 £m
11.8	Delegated Funding for Schools	9.7
13.8	Carry forward of underspendings across other services	1.3
25.6	**Earmarked Reserves as at 31 March**	**11.0**
14.8	Uncommitted balance	14.8
40.4	**Balance at 31 March**	**25.8**

Note 12: Movements in Earmarked Revenue Reserves

The following are the main reserves held by the Authority:

Insurance
The insurance policies held by the Authority require a significant level of self insurance, the level of this being recommended by independent advisers. The monies set aside for self insurance are split between a provision representing outstanding, unsettled claims at 31 March 2017 and a reserve to meet future claims.

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

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

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

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

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

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

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

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

Children & Family Services – Dedicated Schools Grant (DSG)
DSG is ring fenced and can only be applied to meet expenditure properly included in the schools budget, as defined in the School Finance and Early years (England) regulations 2015.

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

	Balance at 31 March 2015 £m	Transfers From Revenue £m	Transfers To Revenue £m	Balance at 31 March 2016 £m	Transfers From Revenue £m	Transfers To Revenue £m	Balance at 31 March 2017 £m
Insurance	17.1	3.8	(1.8)	19.1	1.3	(0.2)	20.2
Renewals of Vehicles & Equipment	2.4	2.6	(0.7)	4.3	1.8	(0.5)	5.6
Children & Family Services (C&FS)							
- Supporting Leicestershire Families	3.3	0.0	(1.0)	2.3	0.2	(0.9)	1.6
- C&FS Developments	3.0	1.6	(0.2)	4.4	0.0	(1.7)	2.7
Adults & Communities (A&C)							
- Adult & Social Care Developments	3.8	3.1	0.0	6.9	1.0	(1.1)	6.8
Public Health	1.8	0.0	0.0	1.8	0.0	0.0	1.8
Environment & Transport							
- Commuted Sums	2.4	0.2	(0.3)	2.3	0.3	0.0	2.6
- Waste Strategy Implementation	1.3	0.4	(0.2)	1.5	0.6	(0.1)	2.0
- LLITM	0.7	0.4	(0.3)	0.8	0.4	0.0	1.2
- Development & Advance Design	0.6	0.0	0.0	0.6	0.8	0.0	1.4
Chief Executive							
- Economic Development	2.3	0.0	(0.2)	2.1	0.0	(0.6)	1.5
Corporate Resources							
- Industrial Properties	0.5	1.0	(0.3)	1.2	0.6	(0.7)	1.1
Corporate							
- Transformation Fund	19.4	1.1	(11.8)	8.7	10.8	(6.1)	13.4
- Capital Financing	6.5	16.6	(18.0)	5.1	31.0	(10.6)	25.5
- Broadband	6.4	0.0	(0.3)	6.1	0.0	(0.7)	5.4
- Business Rates Retention	1.1	0.3	0.0	1.4	0.0	0.0	1.4
- Inquiry & Other Costs	0.0	0.0	0.0	0.0	2.0	(0.7)	1.3
Other (reserves below £1m at 31 March 2017)	19.9	3.8	(7.0)	16.7	2.6	(8.2)	11.1
Sub-Total	**92.5**	**34.9**	**(42.1)**	**85.3**	**53.4**	**(32.1)**	**106.6**
Children and Family Services – Dedicated Schools Grant	10.8	0.5	(6.0)	**5.3**	0.0	(2.5)	**2.8**
TOTAL	**103.3**	**35.4**	**(48.1)**	**90.6**	**53.4**	**(34.6)**	**109.4**

Note 13: Other Operating Expenditure

2015/16 £m		2016/17 £m
0.3	Flood Defence Levies	0.3
(0.9)	(Gains)/losses on the disposal of non-current assets (Excluding Academies)	(0.4)
13.4	(Gains)/losses on the disposal of Academies	15.0
12.8	**Total**	**14.9**

Note 14: Financing and Investment Income and Expenditure

2015/16 £m		2016/17 £m
16.2	Interest payable and similar charges	16.0
23.4	Pensions interest cost and expected return on pensions assets	18.3
(4.0)	Interest receivable and similar income	(4.4)
(0.1)	Income & Expenditure in relation to investment properties and changes in their fair value	(0.4)
(0.1)	Other investment income (surplus or deficit on Trading Accounts)	(0.6)
35.4	**Total**	**28.9**

Note 15: Taxation and Non-Specific Grant Incomes

2015/16 £m		2016/17 £m
(237.2)	Council tax income	(251.8)
(58.5)	Non domestic rates	(59.7)
(64.0)	Non ring-fenced government grants	(61.2)
(64.7)	Capital grants and contributions	(48.6)
(424.4)	**Total**	**(421.3)**

Note 16: Pensions Revenue Costs

a) Local Government Pension Scheme – A defined benefit scheme

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

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

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

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

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

The IAS 19 balance sheet position as at 31st March 2017 has deteriorated significantly since the previous year. The discount rate used in the valuation reduced from 3.5% to 2.6% due to a fall in the AA corporate bond yield, and this increased the present value of liabilities substantially. Investment returns over the year had the impact of increasing assets by almost £180m, but this was significantly less than the increase in liabilities. Overall the net liability within the LGPS increased to £614.5m (31 March 2016, £523.7m).

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

2015/16 £m		2016/17 £m
	Comprehensive Income and Expenditure Statement	
	Cost of Services	
	Service cost comprising:	
42.2	Current service cost	34.7
0.9	Past service costs	1.2
(3.6)	Settlements and Curtailments	(2.4)
	Financing and Investment Income and Expenditure:	
23.4	Net Interest expense	18.3
62.9	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	51.8
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the net defined benefit liability comprising:	
24.4	Return on planned assets (excluding the amount included in the net interest expense)	(179.7)
0.0	Actuarial gains/losses arising from changes in demographic assumptions	(18.5)
(235.4)	Actuarial gains/losses arising from changes in financial assumptions	314.0
(24.3)	Other	(42.5)
(172.4)	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**125.1**
	Movements in Reserves Statement	
28.1	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the code	**17.5**
	Actual amount charged against the County Fund Balance for Pensions in the year	
31.8	Employers contributions payable to scheme	31.3
3.1	Unfunded benefits	3.0
34.9	Total amount charged against the County Fund Balance for Pensions in the year	**34.3**

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 2017 was a loss of £614.5m and at 31 March 2016 was a loss of £523.7m.

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:

2015/16 £m		2016/17 £m
(1,730.8)	**As at 1 April**	**(1,522.5)**
(42.2)	Current service cost	(34.7)
(55.2)	Interest Cost	(53.0)
(9.1)	Contributions by scheme participants	(8.6)
	Remeasurement (gains) and losses:	
0.0	Changes in demographic assumptions	18.5
235.4	Changes in financial assumptions	(314.0)
23.4	Other	41.3
	Past service costs:	
(0.9)	(Losses) / Gains on curtailments	(1.2)
50.7	Benefits paid	52.3
6.2	Liabilities extinguished on settlements	5.4
(1,522.5)	**As at 31 March**	**(1,816.5)**

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

2015/16 £m		2016/17 £m
999.8	**As at 1 April**	**998.8**
31.8	Interest Income	34.8
	Remeasurement gain/(loss):	
(24.4)	Return on plan assets	179.7
32.6	Employer contributions	32.2
9.1	Contributions by scheme participants	8.7
(50.7)	Benefits paid	(52.3)
3.2	Contributions in respect of unfunded benefits	3.1
(2.6)	(Losses) / Gains on settlements	(3.0)
998.8	**As at 31 March**	**1,202.0**

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:

2015/16 £m	2015/16 % of total assets		2016/17 £m	2016/17 % of total assets
		Equity Securities:		
27.3	3%	Other	31.0	3%
		Debt Securities:		
52.7	5%	UK Government	103.5	9%
41.1	4%	Other	13.2	1%
38.3	4%	Private Equity	45.4	4%
		Real Estate:		
101.7	10%	UK Property	96.6	8%
		Investment Funds and Unit Trusts:		
490.0	49%	Equities	575.7	48%
107.5	11%	Bonds	107.8	9%
45.3	4%	Hedge Funds	40.4	3%
21.5	2%	Commodities	28.3	2%
26.1	3%	Infrastructure	53.8	4%
27.6	3%	Other	30.1	3%
		Derivatives		
(0.3)	0%	Interest rate	(0.6)	0%
20.0	2%	Cash and Cash Equivalents	76.8	6%
998.8	**100%**	**As at 31 March**	**1,202.0**	**100%**

The scheme history of the pension fund is as follows:

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Present value of liabilities:	(1,343.1)	(1,479.5)	(1,730.8)	(1,522.5)	(1,816.5)
Fair value of assets:	845.5	876.2	999.8	998.8	1,202.0
Surplus / (Deficit)	**(497.6)**	**(603.3)**	**(731.0)**	**(523.7)**	**(614.5)**

The liability shows the underlying commitment that the Authority has in the long run to pay post-employment (retirement) benefits. This total liability of £614.5m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit will result in the deficit being made good by increased contributions by the employer, over the remaining working life of employees, as assessed by the actuary.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. The Authority's Pension fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the County Council fund being based on the latest full valuation of the Pension Fund as at 31st March 2016.

The principal assumptions used by the actuary have been:

31 March 2016		31 March 2017
	Mortality assumptions (in years):	
	Longevity at 65 for current pensioners:	
22.2	▪ Men	22.1
24.3	▪ Women	24.3
	Longevity at 65 for future pensioners:	
24.2	▪ Men	23.8
26.6	▪ Women	26.2
2.2%	Rate of inflation	2.4%
3.2%	Rate of increases in salaries	3.4%
2.2%	Rate of increase in pensions	2.4%
3.5%	Rate for discounting scheme liabilities	2.6%
	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 2017:

	Approximate % Increase in Employer Liability	Approximate monetary amount (£m)
0.5% decrease in Real Discount Rate	9%	162.3
0.5% increase in the Salary Increase Rate	1%	24.1
0.5% increase in the Pension Increase Rate	8%	142.8

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 as constant a rate as possible. The Authority has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The last triennial valuation was completed on 31 March 2016.

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

The authority anticipated to pay £31.8m expected contributions to the scheme in 2017/18.

The weighted average duration of the defined benefit obligation for scheme members is 17.4 years, 2016/17 (17.8 years 2015/16).

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 2016/17 the Authority paid £9.0m (2015/16 £8.6m) to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 16.48% (2015/16 14.1% increasing to 16.4% from September 2015) 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 2016/17 these amounted to £2.1m (2015/16 £2.1m), representing 4.03% (2015/16 4.06%) 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 2016/17 the Authority paid £0.1m to the NHS pension scheme (£0.1m in 2015/16) in respect of public health staff. This amount is recognised as an expense in the CIES under the Public Health services line.

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

	Land and Buildings	Vehicles Plant and Equipment	Infrastructure	Community Assets	Assets Under Construction	Surplus Assets	Total	Intangible Assets	Assets Held for Sale
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Gross Carrying Amount as at 31 March 2016	**452.7**	**11.6**	**326.0**	**11.3**	**30.5**	**3.3**	**835.4**	**2.1**	**3.4**
Additions	23.6	3.0	23.9	0.0	22.7	0.0	73.2	0.9	0.0
Capital Expenditure Not Increasing Value	(4.2)	(0.5)	0.0	0.0	0.0	0.0	(4.7)	0.0	0.0
Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve	41.5	0.0	0.0	0.0	0.0	3.5	45.0	0.0	0.0
Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit	(24.1)	0.0	0.0	0.0	0.0	0.0	(24.1)	0.0	(0.6)
Disposals	(21.1)	0.0	0.0	0.0	0.0	(6.1)	(27.2)	0.0	(2.1)
Transfers Between Asset Categories	3.2	0.0	15.4	0.0	(22.7)	2.5	(1.6)	0.0	1.6
Transfers To/From Investment Properties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Carrying Amount as at 31 March 2017	**471.6**	**14.1**	**365.3**	**11.3**	**30.5**	**3.2**	**896.0**	**3.0**	**2.3**
Accumulated Depreciation as at 1 April 2016	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Depreciation written out to the Revaluation Reserve	(2.8)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(2.8)	(0.0)	(0.0)
Depreciation / Amortisation written out to the Surplus/ Deficit	(5.5)	(2.9)	(10.5)	(0.0)	(0.0)	(0.0)	(18.9)	(0.6)	(0.0)
Less: Writing down leased assets	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)
Derecognition Depreciation	0.6	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.0
Accumulated Depreciation as at 31 March 2017	(7.8)	(2.9)	(10.5)	(0.0)	(0.0)	(0.0)	(21.2)	(0.6)	(0.0)
Net Book Value as at 31 March 2017	**463.8**	**11.2**	**354.8**	**11.3**	**30.5**	**3.2**	**874.8**	**2.4**	**2.3**

Restated

	Land and Buildings	Vehicles Plant and Equipment	Infrastructure	Community Assets	Assets Under Construction	Surplus Assets	Total	Intangible Assets	Assets Held for Sale
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net Book Value as at 31 March 2015	**448.5**	**6.6**	**317.8**	**11.3**	**7.0**	**3.1**	**794.3**	**2.2**	**5.0**
Additions	17.6	6.3	17.4	0.0	27.4	0.0	68.7	0.4	0.0
Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve	24.6	0.0	0.0	0.0	0.0	0.2	24.8	0.0	0.2
Disposals	(14.3)	0.0	0.0	0.0	0.0	0.0	(14.3)	0.0	(1.4)
Transfers Between Asset Categories	1.9	1.1	0.8	0.0	(3.9)	0.1	0.0	0.0	0.0
Transfers To/From Investment Properties	(0.9)	0.0	0.0	0.0	0.0	0.0	(0.9)	0.0	0.0
Capital Expenditure Not Increasing Value	(4.5)	(0.5)	0.0	0.0	0.0	0.0	(5.0)	0.0	0.0
Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit	(10.5)	0.0	0.0	0.0	0.0	(0.1)	(10.6)	0.0	(0.4)
Book Value as at 31 March 2016	**462.4**	**13.5**	**336.0**	**11.3**	**30.5**	**3.3**	**857.0**	**2.6**	**3.4**
Depreciation written out to the Revaluation Reserve	(3.5)	0.0	0.0	0.0	0.0	0.0	(3.5)	0.0	0.0
Depreciation / Amortisation written out to the Surplus/ Deficit	(6.1)	(1.9)	(10.0)	0.0	0.0	0.0	(18.0)	(0.5)	0.0
Less: Writing down leased assets	(0.1)	0.0	0.0	0.0	0.0	0.0	(0.1)	0.0	0.0
Net Book Value as at 31 March 2016	**452.7**	**11.6**	**326.0**	**11.3**	**30.5**	**3.3**	**835.4**	**2.1**	**3.4**

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

Depreciation/Amortisation

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

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

Capital Commitments

At 31 March 2017, the Authority has entered into a number of contracts for the acquisition, construction or enhancement of Property, Plant and Equipment in 2017/18 and future years budgeted to cost £21.8m, (similar commitments at 31 March 2016 were to a value of £81.9m). The following table outlines the major contracts:

Major Contract	£m
LED Street Lighting	6.7
Rural Broadband Phase (2)	4.8
Wigston Area Special School	4.2
Birstall Hallam Fields Primary School	3.3
Earl Shilton Townland Primary School	1.3

Academies, Church and Other Schools

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

Financial Year	Number of Schools	31 March £m
2011/12	16	65.4
2012/13	82	181.1
2013/14	25	54.2
2014/15	21	59.8
2015/16	5	13.4
2016/17	14	15.0
Total	**163**	**388.9**

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

Revaluations

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

	Land and Buildings £m	Surplus Assets £m	Total £m
Carried at Historical Cost:	5.2	0.0	5.2
Valued at Fair Value as at:			
31 March 2017	304.2	3.1	307.3
31 March 2016	154.4	0.1	154.5
Total Cost or Valuation	**463.8**	**3.2**	**467.0**

Current Intangible Assets

The Authority holds £0.4m of intangible current assets (£0.6m 2015/16). The total of current intangible assets is comprised solely of landfill allowance credits. These allowances convey the Authority's right to divert amounts of bio-degradeable waste to landfill as part of the Landfill Allowance Trading Scheme (LATS) as established via the Department for Environment and Rural Affairs (DEFRA).

Non-Current Intangible Assets

The Authority has non-current intangible assets of £2.4m (£2.1m 2015/16). This includes ICT software licences required to support and safeguard the ICT systems operated by the Authority.

Fair Value Hierarchy

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

	2016/17		
	£m	£m	£m
	Level 1 *Quoted Prices in Active Markets for Identical Assets*	**Level 2** *Other Significant Observable Inputs*	**Level 3** *Significant Unobservable Inputs*
Surplus Properties		3.2	
Total		**3.2**	

	2015/16		
	£m	£m	£m
	Level 1 *Quoted Prices in Active Markets for Identical Assets*	**Level 2** *Other Significant Observable Inputs*	**Level 3** *Significant Unobservable Inputs*
Surplus Properties		3.3	
Total		**3.3**	

Note 18: Heritage Assets

	Art Collection £m	Archaeo-logical Collection £m	Fashion Collection £m	Working Life Collection £m	Civic Collection £m	Total £m
Net book value as at 31 March 2015	**2.9**	**0.4**	**0.1**	**0.8**	**0.2**	**4.4**
Additions	0.0	0.0	0.0	0.0	0.0	**0.0**
Disposals	0.0	0.0	0.0	0.0	0.0	**0.0**
Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve	0.0	0.0	0.0	0.1	0.0	**0.1**
Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit	0.0	0.0	0.0	0.0	0.0	**0.0**
Capital expenditure not increasing value Depreciation	0.0	0.0	0.0	0.0	0.0	**0.0**
Depreciation	0.0	0.0	0.0	0.0	0.0	**0.0**
Net Book Value as at 31 March 2016	**2.9**	**0.4**	**0.1**	**0.9**	**0.2**	**4.5**
Additions	0.0	0.0	0.0	0.0	0.0	**0.0**
Disposals	0.0	0.0	0.0	0.0	0.0	**0.0**
Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve	0.0	0.0	0.0	0.0	0.0	**0.0**
Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit	0.0	0.0	0.0	0.0	0.0	**0.0**
Capital expenditure not increasing value	0.0	0.0	0.0	0.0	0.0	**0.0**
Depreciation	0.0	0.0	0.0	0.0	0.0	**0.0**
Net Book Value as at 31 March 2017	**2.9**	**0.4**	**0.1**	**0.9**	**0.2**	**4.5**

As per the accounting policy for Heritage Assets within note 49, assets and additions are initially recognised at cost. Revaluations are based on specialist or insurance valuations. There have been no material additions and no disposals in 2016/17. Due to this, a summary of the movements in Heritage Assets would show no movements. Sale proceeds are accounted for in accordance with statutory requirements as these assets would meet the definition of a capital receipt.

Heritage Asset Collections:

The Art Collection
The collection consists of works of art which were initially acquired by the former Education Authority for loan to schools and colleges. Artists represented include Christopher Wood and William Scott.

The Museum Fine Art Collection
Some of the notable paintings of most value are works by the nineteenth century local artist John Ferneley Snr.

The Archaeological Collection
This collection consists of the Hallaton treasure, the largest hoard of British Iron Age coins, which was initially discovered near Hallaton in 2000. The hoard includes over 5,000 silver and gold coins, a silver-gilt Roman parade helmet, jewelry, and other objects. Most of the items date to around the time of the Roman Conquest of Britain in the 1st century AD.

The Working Life Collection
The collection includes steam and diesel locomotives (from the mid to late 20th century) the Whitwick hearse; steam traction engines, battery electric vehicles (including a local ice cream van) and the Blue Box Century Theatre; the only fully equipped solid structure, mobile theatre in the world. The dream of John Ridley, an engineer, was turned into reality in a Hinckley yard between 1948 and 1952. Many famous names are associated with the theatre including Laurence Olivier, Agatha Christie, Enid Blyton, Judi Dench, Helen Mirren, Tom Courtney, Derek Fowlds and Eileen Derbyshire.

The 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 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 1930’s

Note 19: Investment Property

The Authority has recently implemented a commercialisation agenda as part of the Medium Term Financial Strategy. Investment property assets are held specifically to generate rental income and/or for capital appreciation and are considered within the scope of *IFRS 13 Fair Value* measurement.

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

2015/16 £m		2016/17 £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:

2015/16 £m		2016/17 £m
0.0	**Opening Balance as at 1st April**	**0.9**
0.0	Additions - Purchases	0.0
0.0	Additions - Construction	0.0
0.0	Additions - Subsequent Expenditure	0.0
0.0	Disposals	0.0
0.0	Gain/Loss From Fair Value Adjustments	0.2
	Transfers:	
0.0	(To)/From Inventory	0.0
0.9	(To)/From Property, Plant & Equipment	0.0
0.9	**Closing Balance as at 31st March**	**1.1**

As at the 31st March 2017 no investment properties are classified as assets held for sale.

Fair Value Hierarchy

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

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

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

Valuation Techniques

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

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

Valuers

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

Note 20: Financial Instruments

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

31 March 2016 Long Term £m	31 March 2016 Current £m		31 March 2017 Long Term £m	31 March 2017 Current £m
		Financial Assets (Investments):		
0.0	142.4	Loans and Receivables	0.0	196.5
14.1	0.0	Available for Sale Financial Assets	19.2	0.0
14.1	**142.4**	**Total Investments**	**19.2**	**196.5**
		Debtors:		
50.0	0.0	Loans and Receivables	48.5	0.0
0.0	71.8	Financial Assets carried at contract amounts	0.0	71.6
50.0	**71.8**	**Total Included In Debtors**	**48.5**	**71.6**
		Financial Liabilities (Borrowings):		
214.6	3.9	at Amortised Cost	204.6	13.4
62.9	0.0	at Fair Value	62.9	0.0
277.5	**3.9**	**Total Borrowings**	**267.5**	**13.4**
1.5	**0.0**	**Total Financial Lease Liabilities**	**1.4**	**0.0**
15.5	**102.8**	**Total Financial Liabilities (Creditors - carried at contract amount)**	**17.4**	**111.8**
0.0	**43.0**	**Total Cash and Cash Equivalents**	**0.0**	**23.4**

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

2015/16 At Amortised Cost £m	2015/16 At Fair Value £m	Financial Liabilities	2016/17 At Amortised Cost £m	2016/17 At Fair Value £m
13.3	**2.7**	**Total Interest Paid**	**13.1**	**2.7**

2015/16 Loans and Receivables £m	2015/16 At Fair Value £m	Financial Assets	2016/17 Loans and Receivables £m	2016/17 At Fair Value £m
1.9	**0.0**	**Total Interest Received**	**2.3**	**0.0**

Fair Value of Assets and Liabilities carried at Amortised Cost

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

- PWLB and Market debt; estimated interest rates at 31 March 2017 for new debt with the same maturity date from comparable lenders.
- Investments; long term – estimated interest rates at 31 March 2017 for equivalent loans.
- Investments; short term – carrying amounts in the Balance Sheet approximate to fair value.

The fair values calculated are as follows:

	31 March 2017 Carrying Amount £m	31 March 2017 At Fair Value £m
Financial Liabilities	280.9	488.6
Financial Assets	205.8	214.4

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

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

Fair Value Hierarchy

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

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

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

Note 21: Inventories

	Leicestershire Highways (stores)	Road Salt	School Food (consumables)	Sub-total	Other (less than £0.1m)	Total
	£m	£m	£m	£m	£m	£m
Opening Balance 31 March 2016	**1.3**	**0.4**	**0.2**	**1.9**	**0.3**	**2.2**
Purchases	17.4	0.2	3.8	**21.4**	0.1	**21.5**
Recognised as an expense during the year	(17.3)	(0.1)	(3.8)	**(21.2)**	0.0	**(21.2)**
Written in balance	0.0	0.0	0.0	**0.0**	0.0	**0.0**
Written off balances	0.0	0.0	0.0	**0.0**	0.0	**0.0**
Reversal of write-offs in previous years	0.0	0.0	0.0	**0.0**	0.0	**0.0**
Closing Balance 31 March 2017	**1.4**	**0.5**	**0.2**	**2.1**	**0.4**	**2.5**

Note 22: Long Term Debtors

31 March 2016 £m		31 March 2017 £m
	Long Term Debtors (amounts falling due after one year)	
34.1	Outstanding debt relating to transferred services (e.g. Unitary Authority, Police, ESPO)	32.1
8.4	Local Authority Mortgage Scheme	3.0
2.6	Residential Care Charges (secured against properties)	3.3
4.9	Other Long Term Debtors	4.7
50.0	**Total Long Term Debtors**	**43.1**

Local Authority Mortgage Scheme - The Authority advanced £8.4m to Lloyds Bank to make it easier for first time buyers to obtain mortgages, thus stimulating the local housing market and benefiting the wider local economy. The advance has been funded through earmarked revenue reserves (included within Direct Revenue Contributions in the table above). £5.4m will be repaid in 2017/18 with the balance of £3.0m in 2018/19.

Note 23: Short Term Debtors

31 March 2016 £m				31 March 2017 £m		
Debtors	Payments in Advance	Total		Debtors	Payments in Advance	Total
13.9	0.0	13.9	Central Government Bodies	13.0	0.0	13.0
8.6	0.1	8.7	Other Local Authorities	13.6	0.2	13.8
0.9	0.0	0.9	NHS Bodies	1.4	0.0	1.4
0.0	0.0	0.0	Public Corps & Trading Funds	0.3	0.0	0.3
36.5	11.8	48.3	Other Entities & Individuals	40.7	7.8	48.5
59.9	**11.9**	**71.8**	**Total Short Term Debtors**	**69.0**	**8.0**	**77.0**

Note 24: Cash & Cash Equivalents

31 March 2016 £m		31 March 2017 £m
	Net Cash Balance at Year End:	
0.2	School & Imprest Accounts	(0.3)
0.8	Main Bank Accounts	2.4
1.0	**Subtotal Cash In Hand / (Overdrawn)**	**2.1**
7.2	Service User Funds Bank Account*	11.4
35.9	Short-Term Deposits with Banks and Building Societies	9.9
44.1	**Total Cash and Cash Equivalents**	**23.4**

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

Note 25: Long Term Creditors

31 March 2016 £m		31 March 2017 £m
	Amounts Received in Advance: (more than one years)	
0.8	Regional Growth Fund	0.7
2.8	Section 106 Housing Developer Revenue Contributions	2.7
3.6	**Total Long Term Creditors**	**3.4**

Note 26: Short Term Creditors

31 March 2016 £m				31 March 2017 £m		
Creditors	**Receipts in Advance**	**Total**		**Creditors**	**Receipts in Advance**	**Total**
11.9	1.5	13.4	Central Government Bodies	12.4	1.2	13.6
5.8	2.0	7.8	Other Local Authorities	7.5	3.5	11.0
2.5	0.3	2.8	NHS Bodies	4.8	0.4	5.2
0.1	0.0	0.1	Public Corps & Trading Funds	0.2	0.1	0.3
69.2	9.5	78.7	Other Entities & Individuals	69.4	9.8	79.2
89.5	**13.3**	**102.8**	**Total Short Term Creditors**	**94.3**	**15.0**	**109.3**

Note 27: Provisions

Short Term	31 March 2016 £m	Additional Provisions £m	Provisions Used £m	31 March 2017 £m
Non Domestic Rates	2.2	0.2	0.0	2.4
Insurance	0.3	0.1	(0.1)	0.3
CRC Liability	0.3	0.3	(0.3)	0.3
Other	0.8	0.5	(0.5)	0.8
Total Short Term Provisions	**3.6**	**1.1**	**(0.9)**	**3.8**

Long Term	31-Mar-16 £m	Additional Provisions £m	Provisions Used £m	31-Mar-17 £m
Insurance	4.4	0.3	(0.8)	3.9
Leased Car Provision	0.1	0.6	(0.6)	0.1
Total Long Term Provisions	**4.5**	**0.9**	**(1.4)**	**4.0**

Total Provisions	**8.1**	**2.0**	**(2.3)**	**7.8**

***Details of* Provisions Held:**

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

Insurance
The insurance policies held by the Authority require a significant level of self-insurance, the level of this being recommended by independent advisers. The monies set aside for self-insurance are split between a provision representing outstanding, unsettled claims at 31 March 2017 and a reserve to meet future claims. The provision is expected to be used within the next seven years. The Insurance provision includes Public/Employers Liability, Fire and Uninsured Losses.

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

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

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

Restated 2015/16 £m			2016/17 £m	
		Non cash transactions:		
	0.8	Movement on provisions	0.4	
	(28.1)	Movement on pensions (IAS 19)	(17.5)	
	(38.1)	Depreciation and Impairment	(51.8)	
	(12.5)	Gain or Loss on disposal of non-current assets	(14.4)	
	0.0	Movement in the valuation of Investment Properties	0.2	
	1.2	Movement on the Collection Fund Adjustment Account	1.7	
	(76.7)			(81.4)
		Revenue items on an accruals basis:		
(18.6)		Change in creditors		(7.2)
(0.9)		Change in long term creditors		0.3
11.5		Change in debtors		4.1
(3.6)		Change in long term debtors		(6.9)
0.8		Change in Inventories		0.3
0.1		Change in Intangible Current Assets		(0.3)
	(10.7)			(9.7)
	(87.4)	**Total adjustments to net surplus or deficit on the provision of services on non cash movements:**		**(91.1)**
		Items classified elsewhere in the statement:		
	0.4	Movement in Accrued Interest		(0.1)
	(12.1)	Servicing of finance		(11.7)
	0.9	Movement on the Available for Sale Financial Instruments Reserve		(0.1)
	64.8	Capital Grants Received		48.8
	54.0	**Total adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities**		**36.9**

Note 29: Cash Flow Statement - Operating Activities

2015/16 £m		2016/17 £m
(4.0)	Interest received	(4.3)
16.1	Interest Paid	16.0
12.1	**Net Cash Flows from Operating Activities**	**11.7**

Note 30: Cash Flow Statement - Investing Activities

2015/16 £m		2016/17 £m
65.5	Purchase of property, plant and equipment, investment property and intangible assets	72.5
75.4	Purchase of short-term and long-term investments	59.4
(3.2)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(14.4)
(64.8)	Capital Grants and Contributions	(48.8)
(1.2)	Other receipts from investing activities	(1.7)
71.7	**Net Cash Flows from Investing Activities**	**67.0**

Note 31: Cash Flow Statement - Financing Activities

2015/16 £m		2016/17 £m
(0.2)	Cash receipts of short-term and long-term borrowing	0.0
11.8	Repayments of short-term and long-term borrowing	0.5
11.6	**Net Cash Flows from Financing Activities**	**0.5**

Note 32: Trading Operations

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

	Industrial Properties £m
Income	(1.9)
Expenditure	1.2
Surplus in 2016/17	**(0.7)**
Surplus in 2015/16	**(1.2)**

As of the 1 April 2016 the Leicestershire Highways Operations (LHO) ceased functioning as a trading account. Highways maintenance activities are now undertaken within the wider remit of the Authority's Environment and Transport department. In 2015/16 the deficit reported for the Leicestershire Highways trading account was £0.9m.

Note 33: Pooled Budgets

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

a) *Integrated Community Equipment Service.* The other members that contribute to this pool are Leicester City Council, Rutland County Council, NHS West Leicestershire Clinical Commissioning Group, NHS East Leicestershire and Rutland Clinical Commissioning Group and NHS Leicester City Clinical Commissioning Group. Leicester City Council acts as the host authority. The Authority contributed £1.2 m (2015/16 £1.5m) to the pool. The memorandum account shows total expenditure of £5.7m (2015/16 £6.5m) and gross income of £5.7m (2015/16 £6.5m). Funding commenced in 2005/06 and the partners have agreed to commission this service until March 2021.

2015/16 £m		2016/17 £m
	Funding Provided to the Pooled Budget	
1.5	Leicestershire County Council	1.2
5.0	Clinical Commissioning Groups / Leicester City Council / Rutland County Council	4.5
6.5	**Total**	**5.7**
	Expenditure Met from the Pooled Budget	
1.5	Leicestershire County Council	1.1
5.0	Clinical Commissioning Groups / Leicester City Council / Rutland County Council	4.6
6.5	**Total**	**5.7**
0.0	**Net Position on the Pooled Budget**	**0.0**

b) *The provision of services for adults with learning disabilities*. Partners who contribute to this pool are NHS West Leicester Clinical Commissioning Group and NHS East Leicestershire and Rutland Clinical Commissioning Group. Leicestershire County Council acts as host to the arrangement. The Authority contributed £13.6m (2015/16 £12.2 m) to the pool. The memorandum account shows total expenditure of £26.5m (2015/16 £24.2m) and gross income from the partners of £27.1m (2015/16 £24.2m). Any net over/underspend arising on the pooled budget is paid by/returned to the partners through revised contributions to the pool. Funding for this service commenced in 2005/06. Partners have a pooled budget agreement in place operated under section 75 of the NHS Act 2006. This agreement expires in March 2018.

2015/16 £m		2016/17 £m
	Funding Provided to the Pooled Budget	
(12.2)	Leicestershire County Council	(13.6)
(12.0)	Clinical Commissioning Groups	(13.5)
(24.2)	**Total**	**(27.1)**
	Expenditure Met from the Pooled Budget	
12.2	Leicestershire County Council	13.3
12.0	Clinical Commissioning Groups	13.2
24.2	**Total**	**26.5**
0.0	**Net Position on the Pooled Budget**	**(0.6)**
0.0	**Surplus to the Authority**	**(0.3)**

c) *The Better Care Fund*. On the 1st April 2015, the Authority's Adults and Communities Department entered into a mandatory pooled budget arrangement under Section 75 of the NHS Act 2006 with NHS West Leicestershire Clinical Commissioning Group and NHS East Leicestershire and Rutland Clinical Commissioning Group. 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 £39.4m (2015/16 £37.3m) and gross income of £39.4m (2015/16 £37.3m).

2015/16 £m		2016/17 £m
	Funding Provided to the Pooled Budget	
(3.1)	Leicestershire County Council	(3.4)
(34.2)	Clinical Commissioning Groups	(36.0)
(37.3)	**Total**	**(39.4)**
	Expenditure Met from the Pooled Budget	
3.1	Leicestershire County Council	3.4
34.2	Clinical Commissioning Groups	36.0
37.3	**Total**	**39.4**
0.0	**Net Position on the Pooled Budget**	**0.0**

d) *Provision of Drugs and Alcohol Support Service.* The other partners who contribute to the pooled budget are Leicester City Council, Rutland County Council, Leicestershire Police and Crime Commissioner and NHS England. This pool ceased operation on June 30th 2016. The below table details the part year position on the pool. Leicester City Council acted as the host Authority and the lead commissioner of services. The aim of the pool arrangement was to assist persons suffering with various addictions through procurement and commissioning of support services. The Authority contributed £0.2m (£0.9m 2015/16) to the pool.

2015/16 £m		2016/17 £m
	Funding Provided to the Pooled Budget	
(0.9)	Leicestershire County Council	(0.2)
(6.3)	Leicester City Council	(1.1)
(0.1)	Rutland County Council	(0.0)
(0.5)	Police and Crime Commissioner	(0.1)
(0.6)	NHS England	(0.2)
(8.4)	**Total**	**(1.6)**
	Expenditure Met from the Pooled Budget	
0.9	Leicestershire County Council	0.2
6.3	Leicester City Council	1.1
0.1	Rutland County Council	0.0
0.5	Police and Crime Commissioner	0.1
0.6	NHS England	0.2
8.4	**Total**	**1.6**
0.0	**Net Position on the Pooled Budget**	**0.0**

Note 34: Senior Officers' Remuneration

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

Post holder Information (Post title)	Salary £000	Compen-sation for loss of office £000	Benefits in kind £000	Total Remuneration Excl. Employers Pension Contribution £000	Employers Pension Contributions (N1) £000	Total Remuneration - including Employers Pension Contribution £000
2016/17						
Chief Executive - John Sinnott	189	0	5	194	42	236
Director of Children & Family Services (N2)	38	0	1	39	9	48
Director of Environment & Transport	124	0	0	124	28	152
Director of Public Health	125	0	0	125	18	143
Director of Adults & Communities	121	0	0	121	27	148
Director of Finance - S151 Officer	107	0	0	107	24	131
Director of Corporate Resources	87	0	4	91	19	110
Director of Law and Governance	101	0	0	101	22	123
Total	892	0	10	902	189	1,091
2015/16						
Chief Executive - John Sinnott	187	0	4	191	40	231
Director of Children & Family Services	123	0	3	126	26	152
Director of Environment & Transport	119	0	0	119	25	144
Director of Public Health	123	0	0	123	18	141
Director of Adults & Communities (N3)	105	0	0	105	22	127
Director of Finance - S151 Officer	102	0	0	102	22	124
Director of Corporate Resources	86	0	3	89	18	107
County Solicitor / Monitoring Officer to May 2015 (N4)	28	0	0	28	5	33
County Solicitor/Monitoring Officer June 2015 – March 2016 (N5)	83	0	0	83	18	101
Total	**956**	**0**	**10**	**966**	**194**	**1,160**

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

N1 – Revised employer's pension contribution rates in 2016/17.
N2 – The Director left LCC in July 2016. An interim director has been employed via an agency.
N3 – The Director joined LCC in May 2015. The annualised salary for the post in 2015/16 was £116k.
N4 – The County Solicitor / Monitoring Officer left LCC in May 2015. The annualised salary for this post in 2015/16 was £128k.
N5 – The County Solicitor / Monitoring Officer was appointed in June 2015 and left in March 2016. The annualised salary for the post was £100k. A new Director of Law and Governance has been appointed from April 2016, to replace the post of County Solicitor/ Monitoring Officer.

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.

2015/16							2016/17					
Including Severance			Excluding Severance				Including Severance			Excluding Severance		
Schools	Non School	Number of Employees 2015/16	Schools	Non School	Number of Employees 2015/16	Remuneration Band	Schools	Non School	Number of Employees 2016/17	Schools	Non School	Number of Employees 2016/17
50	44	94	50	33	83	£50,000-£54,999	46	38	84	45	34	79
47	40	87	47	37	84	£55,000-£59,999	38	44	82	39	37	76
27	22	49	27	20	47	£60,000-£64,999	29	9	38	29	10	39
11	7	18	11	7	18	£65,000-£69,999	11	10	21	11	10	21
4	6	10	4	4	8	£70,000-£74,999	6	5	11	6	3	9
3	5	8	3	4	7	£75,000-£79,999	1	6	7	1	5	6
3	3	6	3	2	5	£80,000-£84,999	3	3	6	3	2	5
0	2	2	0	2	2	£85,000-£89,999	1	0	1	0	0	0
0	5	5	0	5	5	£90,000-£94,999	0	7	7	0	7	7
0	1	1	0	0	0	£95,000-£99,999	0	0	0	0	0	0
0	1	1	0	1	1	£100,000-£104,999	0	1	1	0	1	1
0	0	0	0	0	0	£105,000-£109,999	0	1	1	0	1	1
0	0	0	0	0	0	£110,000-£114,999	0	0	0	0	0	0
0	0	0	0	0	0	£115,000-£119,999	0	0	0	0	0	0
0	0	0	0	0	0	£120,000-£124,999	0	0	0	0	0	0
0	0	0	0	0	0	£125,000-£129,999	0	1	1	0	0	0
0	1	1	0	0	0	£130,000-£134,999	0	0	0	0	0	0
0	0	0	0	0	0	£135,000-£139,999	0	0	0	0	0	0
0	1	1	0	0	0	£140,000-£144,999	0	0	0	0	0	0
145	**138**	**283**	**145**	**115**	**260**	**Total**	**135**	**125**	**260**	**134**	**110**	**244**

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

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in each Cost Band*	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16 £m	2016/17 £m
£0 - £20,000	85	59	166	76	251	135	1.4	1.1
£20,001 - £40,000	4	13	20	13	24	26	0.7	0.8
£40,001 - £60,000	5	2	10	1	15	3	0.8	0.2
£60,001 - £80,000	0	1	5	4	5	5	0.4	0.3
£80,001 - £100,000	0	0	2	0	2	0	0.2	0.0
£100,001 - £150,000	0	0	2	1	2	1	0.2	0.1
£150,001 - £200,000	0	0	0	0	0	0	0.0	0.0
£200,001+	1	0	0	0	1	0	0.2	0.0
Total	**95**	**75**	**205**	**95**	**300**	**170**	**3.9**	**2.5**

*The above table includes accrued liabilities. See note 43 for further details
**Note the numbers shown are the actual number of officers, not full time equivalents.

Note 35: Members' Allowances

Amounts were paid to members of the Authority as follows:

2015/16 £m		2016/17 £m
0.7	Basic Allowance	0.7
0.3	Special Responsibility Allowance	0.3
0.1	Other Expenses	0.1
1.1	**Total**	**1.1**

Note 36: External Audit Costs

2015/16 £		2016/17 £
	Fees payable to external auditor:	
76,950	▪ annual audit	76,950
5,500	▪ certification of grant claims *	0
82,450	**Total**	**76,950**

* Grant claims continue to be accounted for on the basis of actual payments in year (£0 2016/17, £5,500 2015/16), rather than an estimation of costs relating to 2016/17 grant claims.

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Note 37: Dedicated Schools Grant

The Authority's expenditure on schools is funded by grant monies provided by the Education Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2015. 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 2016/17 are as follows:

	2015/16		Schools Budget Funded by DSG		2016/17	
£m	£m	£m		£m	£m	£m
Central Exp	Individual Schools Budget	Total		Central Exp	Individual Schools Budget	Total
		(440.0)	Final DSG Before Academy Recoupment			(445.1)
		263.5	Academy Figure Recouped			267.0
		(176.5)	**Total DSG after Academy recoupment**			**(178.1)**
		(10.8)	Brought Forward from Previous Year			(5.3)
		0.0	Carry Forward Agreed in Advance			0
(83.5)	**(103.8)**	**(187.3)**	**Agreed Initial Budgeted Distribution**	**(83.5)**	**(99.9)**	**(183.4)**
0.3	0.0	0.3	In Year Adjustments	0.0	0.0	0.0
(83.2)	**(103.8)**	**(187.0)**	**Final Budgeted Distribution**	**(83.5)**	**(99.9)**	**(183.4)**
78.0	0.0	78.0	Actual Central Expenditure	80.8	0.0	80.8
0.0	103.7	103.7	Actual ISB Deployed to Schools	0.0	99.8	99.8
0.0	0.0	0.0	Local Authority Contribution	0.0	0.0	0.0
(5.2)	**(0.1)**	**(5.3)**	**Carry Forward**	**(2.7)**	**(0.1)**	**(2.8)**

Note 38: Grant Income

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

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

2015/16 £m		2016/17 £m
	Revenue:	
56.2	Revenue Support Grant (RSG)	37.0
0.0	RSG Transition Grant	3.3
3.9	Education Services Grant	3.6
3.4	New Homes Bonus Scheme Grant	4.3
	Capital:	
	Department for Education:	
15.3	Basic Need	7.9
0.0	Basic Need (part of 2017/18)	1.1
3.4	Maintenance	3.1
	Department for Transport:	
14.2	Local Transport Plan - Maintenance	13.0
2.7	Local Transport Plan – Integrated Transport Schemes	2.7
2.1	LED – Street Lighting Project	3.0
	Department of Health	
1.3	Community Capacity Grant	1.3
1.7	Disabled Facilities Grant	1.7
11.0	*Leicester and Leicestershire Enterprise Partnership*	9.8
4.6	*Section 106 Housing Developer Contributions*	7.9
8.9	*Other Capital Contributions*(below £1m at 31 March 2017)	10.1
128.7	**Total (Note 15 non ring-fenced government grants and capital grants and contributions)**	**109.8**

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

2015/16 £m			2016/17 £m	
		Public Health		
	23.6	Public Health Grant		26.2
		Children and Family Services – Education:		
176.2		Dedicated Schools Grant	178.1	
0.9		6th Form Funding	1.6	
1.2		PE & Sports Grant	1.1	
4.5		Universal Infant Free School Meals	4.2	
1.4		Music Grant	1.4	
6.6		Pupil Premium Grant	6.6	
	190.8			193.0
		Adults and Communities – Dept of Health:		
3.7		Care Act	0.0	
1.0		Independent living Fund	1.3	
4.7		Skills Funding Agency	4.4	
	9.4			5.7
	15.8	Other		23.9
	239.6	**Total**		**248.8**

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

Short-Term Capital Grants Receipts in Advance:

31 March 2016 £m		31 March 2017 £m
	Dept for Education:	
0.0	Early Years Capital Fund Grant	0.7
	Dept for Transport:	
0.0	Pothole Grant	0.6
1.0	Section 106 Housing Developer Contributions	1.1
0.1	Other Grants and Contributions	0.1
1.1	**Total**	**2.5**

Long-Term Capital Grants Receipts in Advance:

31 March 2016 £m		31 March 2017 £m
0.1	Land Reclamation Grant	0.1
11.8	Section 106 Housing Developer Contributions	13.9
11.9	**Total**	**14.0**

Note 39: Related Parties

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

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

Central Government

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

Grants received from government departments are set out in the analysis in Note 38. Grant receipts outstanding at 31 March are also shown in Note 38.

Members

Members of Leicestershire County Council have direct control over the council's financial and operating polices. The total of members' allowances paid in 2016/17 is shown in Note 34. During 2016/17, works and services to the total value of £0.3m (2015/16 £0.3m) were commissioned from companies, in which three member had an interest. Contracts were entered into in full compliance with the Authority's standing orders.

Currently, the Authority has contracts with voluntary and community sector organisations to the value of £0.3m (2015/16, £0.3m), in which 10 members (2015/16, 5 members) have an interest. In addition, payments totalling less than £0.1m have been made during 2016/17 (2015/16, less than £0.1m) to organisations, in which 1 member had a position on the governing body (2015/16, 4 members). No such payments have been made to organisations whose senior management includes members of the families of members. In all instances, the payments were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the payments. Details of all these transactions are recorded in the *Register of Members' Interest*, which is available for public inspection at www.leics.gov.uk

Officers

During 2016/17, works and services to the value of £0.4m were procured through the East Midlands Lawshare Framework (2015/16 £0.2m), in which one senior officer's family member had an interest. Contracts were entered into in full compliance with the Authority's standing orders.

Additionally during 2016/17 works and services to the value of £0.4m (2015/16 £0.2m) were purchased from organisations in which two senior officers have declared an interest (2015/16 two senior officers). Purchases were made in full compliance with the Authority's procurement guidelines.

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

The Authority has four pooled budget arrangements with local health authorities for the supply of aids for daily living, the Better Care Fund, drugs and alcohol support and the provision of services for adults with learning difficulties. Transactions and balances are detailed in Note 33.

Entities Controlled or Significantly Influenced by Leicestershire County Council

a) The Authorities contract with Leicester Shire Promotions Limited (LPL) expired on 31st March 2017 following a review of how tourism support services are to be delivered across Leicestershire.

The Authority made contributions of £0.2m to LPL during 2016/17 (2015/16 £0.2m). Income, debtor and creditor balances were all less than £0.1m during 2016/17 (2015/16 all less than £0.1m).

b) Leicester and Leicestershire Business Rates Pool

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

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

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

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

The Authority, Leicester City Council, the Combined Fire Authority and all the Leicestershire District Councils have agreed to operate a pooling agreement for business rates levies and safety net payments, the Leicester and Leicestershire Pool (LLP).

The Authority is the lead authority for the LLP.

A summary of the position for 2016/17 is shown below which shows an overall surplus on the Pool of £5.0m.

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

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

The total of £6.4m held as at 31 March 2017 comprises a £1.4m contingency towards future Pools, with the balance of £5m for investment in the wider Leicestershire area and is shown as a creditor in the Authority's accounts (£2m was transferred to the Leicester and Leicestershire Economic Partnership (LLEP) during 2016/17). The contingency is shown in the Authority's accounts as a receipt in advance; £1m held on behalf of the Pool members and the balance of £0.4m, the Authority's share, is held as part of the Business Rates Retention Reserve

Concessionary Travel Fares Scheme

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

2015/16 £m		2016/17 £m
(8.7)	Income	(8.7)
13.9	Expenditure	13.8
5.2	**Net Cost**	**5.1**

Note 40: Interests in Other Consortia

a) Eastern Shires Purchasing Organisation (ESPO)

The Authority is a member of the Eastern Shires Purchasing Organisation involved in the negotiation of contracts for supplies to its members and the provision of a central warehouse for the supply of items in common use. The Authority had an outstanding creditor balance of £0.2m (2015/16 £0.2m) and an outstanding debtor balance of £0.3m as at 31 March 2017 (2015/16 £0.3m).

In 2005, the Authority entered into a 25 year borrowing arrangement of £12.5m on behalf of the constituent members of the consortium to finance the provision of a new warehouse and integrated offices. The loan outstanding as at 31 March 2017 is £6.8m (2015/16 £7.3m).

The Authority in effect owns approximately one sixth of ESPO assets and liabilities, which in 2016/17 were net liabilities of £0.2m (2015/16 net assets £0.4m). 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 received £0.4m of income during 2016/17 from Leicester, Leicestershire and Rutland Combined Fire Authority (2015/16 £0.5m). The Authority had an outstanding debtor balance of £0.1m as at 31 March 2017 (2015/16 £0.1m).

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

c) East Midlands Shared Services

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

Operations relating to EMSS are carried out at both LCC and NCC premises with LCC being the employing authority and NCC the host authority. In line with the partnership agreement the net expenditure is shared between the two authorities by allocating an equal share of the financial benefits (savings) accruing from the operation of EMSS. This has resulted in a share of costs for the Authority of 42.59%. EMSS does not separately own any assets or liabilities.

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

Total EMSS 2015/16 £m	Amounts Included in LCC CIES 2015/16 £m		Total EMSS 2016/17 £m	Amounts Included in LCC CIES 2016/17 £m
		Income:		
(1.6)	(1.6)	Direct external income - LCC	(1.4)	(1.4)
(0.6)	0.0	Direct external income - NCC	(0.6)	0.0
0.0	(2.8)	NCC share of net LCC direct costs	0.0	(2.8)
(2.2)	(4.4)	**Total Income**	(2.0)	(4.2)
		Expenditure:		
6.3	6.2	Direct costs incurred by LCC	6.3	6.0
0.1	0.0	Direct costs incurred by NCC	0.3	0.0
6.4	6.2	**Total Expenditure**	6.6	6.0
4.2	**1.8**	**Net Expenditure**	**4.6**	**1.8**

c) Centre of Excellence for Information Sharing

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

The organisation's main goals are:

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

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

Income and Expenditure

2015/16 £m		2016/17 £m
(1.4)	Income	(0.6)
0.4	Transfer (from) / to Reserve	(0.6)
1.0	Expenditure	1.2
0.0	**(Surplus)/Deficit**	**0.0**

Note 41: Capital Expenditure and Capital Financing

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

2015/16 £m		2016/17 £m
298.5	Opening Capital Financing Requirement	**283.6**
	Capital Investment:	
68.7	Property, Plant and Equipment	73.1
0.4	Intangible Assets	0.9
17.9	Revenue Expenditure funded from Capital under Statute	24.7
15.0	Long Term Inventory – Available for Sale (N1)	5.0
	Sources of Finance:	
(6.2)	Capital Receipts	(22.7)
(74.7)	Government grants and other contributions	(67.3)
(21.1)	Direct revenue contributions	(13.8)
(12.0)	Statutory Minimum Revenue Provision (N2)	(11.3)
(2.9)	Additional (Voluntary) Minimum Revenue Provision (N3)	(4.5)
283.6	**Closing Capital Financing Requirement**	**267.7**
	Explanation of Movements in Year	
	Increase in underlying need to borrow:	
0.0	Supported by government financial assistance	0.0
0.0	Unsupported by government financial assistance	0.0

(N1) During 2016/17 the County Council purchased £5m of Pooled Property Investments to generate ongoing revenue savings.

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

(N3) During 2016/17 the County Council made an additional MRP contribution of £4.5m, funded from revenue and reserve balances, to reduce the capital financing requirement. This reduces the need to borrow, saving future capital financing costs.

Note 42: Leases

a) Amounts Paid to Lessors

Finance lease rentals paid to lessors in the year totalled £0.3m (2015/16 £0.3m). Lease rentals paid to lessors during the year in respect of operating leases for vehicles and equipment totalled £0.8m (2015/16 £0.7m).

b) Amounts Received from Lessees

Lease rentals on Authority owned buildings received from lessees during the year in respect of operating leases totalled £1.6m (2015/16 £1.5m). Expected Lease rentals projected to be received in 2017/18 is £1.5m. During 2016/17 14 schools transferred to Academy Status resulting in the net book value of the schools, £15m being written out of the Authority's Balance Sheet as these have been transferred on 125 year finance lease terms (2015/16 five schools, £13.4m). No consideration was or will be received by the Authority for these finance leases.

c) Leased Assets

The Authority has a liability to make payments for the following leases during 2017/18 and beyond. The comparators in 2015/16 for 2017/18 and beyond are as follows:

2015/16					2016/17			
Finance Lease Principal (NPV) £m	Finance Cost £m	Finance Leases Total £m	Operating Leases £m		Finance Lease Principal (NPV) £m	Finance Cost £m	Finance Leases Total £m	Operating Leases £m
				Lease Payments due:				
0.1	0.2	0.3	0.1	Within 1 year	0.0	0.2	0.2	0.4
0.3	0.9	1.2	0.3	2 to 5 years	0.3	0.8	1.1	0.6
1.1	3.8	4.9	0.0	Over 5 years	1.1	3.8	4.9	0.0
1.5	**4.9**	**6.4**	**0.4**	**Total**	**1.4**	**4.8**	**6.2**	**1.0**

Finance Leased Assets have a carrying value within Land and Buildings within Property, Plant and Equipment of £0.9m as at 31 March 2017 (31 March 2016 £1.0m).

Note 43: Impairment Losses

During 2016/17, the Authority has not recognised any impairment losses (2015/16 nil). However, revaluations downwards of £19.6m have been recognised in the Revaluation Reserve and revaluations downwards of £23.8m have been recognised in the Comprehensive Income and Expenditure Statement.

Note 44: Termination Benefits

Termination benefits arise when employment is terminated by the Authority before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Authority recognises termination benefits as a liability and an expense if the Authority is demonstrably committed to a detailed formal plan without realistic possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, termination benefits are measured based on the number of employees expected to accept the offer. The total termination benefits for 2016/17 are £2.5m (2015/16 £3.9m).

Details of actual and accrued benefits are shown below:

- **Actual Benefits**

2015/16 Number of Officers Schools	2015/16 Number of Officers Non-Schools	2015/16 Amount (£m)		2016/17 Number of Officers Schools	2016/17 Number of Officers Non-Schools	2016/17 Amount (£m)
			Department:			
11	23	0.2	Children & Family Services	7	26	0.4
0	15	0.6	Environment & Transport	0	9	0.2
0	51	0.3	Adults & Communities	0	70	1.0
0	11	0.4	Corporate Resources	0	14	0.2
0	9	0.3	Chief Executive’s	0	2	0.0
0	2	0.0	Public Health	0	3	0.1
11	**111**	**1.8**	**Total**	**7**	**124**	**1.9**

- **Accrued Benefits**

2015/16 Number of Officers Schools	2015/16 Number of Officers Non-Schools	2015/16 Amount (£m)		2016/17 Number of Officers Schools	2016/17 Number of Officers Non-Schools	2016/17 Amount (£m)
			Department:			
8	68	0.6	Children & Family Services	21	3	0.3
0	70	1.4	Environment & Transport	0	0	0.0
0	30	0.1	Adults & Communities	0	15	0.3
0	2	0.0	Corporate Resources	0	0	0.0
0	0	0.0	Chief Executive’s	0	0	0.0
0	0	0.0	Public Health	0	0	0.0
8	**170**	**2.1**	**Total**	**21**	**18**	**0.6**

Note 45: Contingent Liabilities

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

The latest financial information for MMI, as disclosed in their management accounts for the half year to 31 December 2016 shows overall estimated net liabilities of £7.6m. The position is after the imposition of a levy on scheme members to 25% in March 2016 from 15% imposed in April 2014, at a total cost to the Authority of £3.7m. At this stage, the scheme administrators do not intend to request any contributions.

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

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

Note 46: Nature and Extent of Risks Arising from Financial Instruments

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

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

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

(i) Credit risk

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

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

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

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

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

Matrix for UK Banks and Building Societies

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

Matrix for Overseas Banks

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

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

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

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

Exposure to Credit Risk
The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies is 100% of its investments, but this cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at 31 March 2017 that this was likely to crystallise.

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

	Amount at 31st March 2016 £m	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 17 %	Estimated maximum exposure to default and uncollecta-bility £m	Amount at 31st March 2017 £m
Deposits with banks and financial institutions	177.0	0.0	0.0	0.0	205.8
Sales ledger	20.1	0.2	0.0	0.0	20.0
Total	**197.1**				**225.8**

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:

2015/16 £m		2016/17 £m
14.9	Less than three months	14.2
1.5	Three to six months	1.7
1.3	Six months to one year	1.1
2.4	More than one year	3.0
20.1	**Total**	**20.0**

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

(ii) Liquidity risk

The Authority has a 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 2016 £m *Restated*		31 March 2017 £m
	Analysis of Loan Maturity Profile:	
3.9	Less than 1 year	13.4
3.9	**Total Short Term Loans by Maturity**	13.4
10.5	Between 1 and 2 years	1.0
1.5	Between 2 and 5 years	1.7
7.3	Between 5 and 10 years	7.5
1.8	Between 10 and 15 years	1.5
0.0	Between 15 and 20 years	0.3
0.0	Between 20 and 25 years	0.4
12.6	Between 25 and 30 years	17.9
47.6	Between 30 and 35 years	48.1
100.5	Between 35 and 40 years	105.9
39.3	Between 40 and 45 years	29.6
53.5	Greater than 45 years	53.6
274.6	**Total Long Term Loans by Maturity**	267.5
278.5	**Total Loans by Maturity**	280.9

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

(iii) Market risk

Interest rate risk

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

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

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

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

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

According to this assessment strategy, at 31 March 2017, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£m
Increase in interest payable on variable rate borrowings	N/A
Increase in interest receivable on variable rate investments	2.3
Increase in government grant receivable for financing costs	0.0
Impact on Surplus or Deficit on the Provision of Services	**2.3**
Decrease in fair value of fixed rate investment assets	(0.6)
Impact on Other Comprehensive Income and Expenditure	**(0.6)**
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)	(84.4)

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

Price risk

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

Foreign exchange risk

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

Note 47: Self-Insurance

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

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

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

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

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

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

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

	Balance at 31 March 2016 £m	Income £m	Expenditure £m	Balance at 31 March 2017 £m
Trust Funds:				
Kibworth High School Endowment	0.3	0.0	0.0	0.3
Bradgate Park & Swithland Wood Charity *	1.1	1.6	(1.9)	0.8
Others	0.3	0.0	0.0	0.3
Total Trust Funds	**1.7**	**1.6**	**(1.9)**	**1.4**

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

Note 49: Accounting Policies

1. *General Principles*

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting (COPLAA) in the UK 2016/17 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

2. *Provisions*

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

Provisions are charged as an expense to the appropriate service within the Comprehensive Income and Expenditure Statement when the Authority has an obligation. Provisions are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

3. Reserves

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

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

The reserves operated by the Authority are explained further:

a) Revenue

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

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

b) Capital

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

Revaluation Reserve

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

Capital Adjustment Account

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

Deferred Capital Receipts Reserve

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

Capital Receipts Reserve and Capital Grants Unapplied

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

c) Other

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

Financial Instruments Adjustment Account

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

Pensions Reserve

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

Short-Term Accumulating Compensated Absences Adjustment Account

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

4. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority’s cash management.

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

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

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

6. *Non- Current Assets*

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

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

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

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

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

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

- ***Intangible Assets***

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

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

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

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

The current asset values used in the accounts are based on a certificate issued by the Authority's Strategic Property Manager as at 1 April 2016. Additions since that date are included in the accounts at their cost of acquisition. The addition is then reviewed, and if the actual capital expenditure does not increase the asset valuation or if the expenditure is less than the Authority's £100,000 capital de-minimus level then this value will be recognised in the Comprehensive Income and Expenditure Statement as capital expenditure not increasing value.

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

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

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

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

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

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

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

Componentisation

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

School assets, where appropriate, have been componentised in line with the methodology for Modern Equivalent Asset (MEA) on a Depreciated Replacement Cost basis.

Revaluation of Assets

Increases in valuations result in a debit being posted to the non-current asset account and matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains are credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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

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

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

Impairment of Assets

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

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

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

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

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

7. Heritage Assets

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

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

Heritage Assets – General

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

8. Leases

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

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

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

Authority as a Lessee:

Finance Leases:

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

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

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

Operating Leases:

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

The Authority as Lessor:

Finance Leases:

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

Operating Leases:

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

9. Revenue Expenditure Funded From Capital Under Statute

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

10. Charges to Revenue for Non-current Assets

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

a) Depreciation

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

Assets are depreciated using the straight line method over the following periods:

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

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

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

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

b) Revaluation and Impairment

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

c) Amortisation

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

11. Capital Receipts

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

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

12. Accruals of Income and Expenditure

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

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

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

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

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

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

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The exception to this policy is in relation to provisions for doubtful debts that are maintained for certain categories of income by individual departments.

13. *Government Grants*

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

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

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

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

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

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

14. *Inventories and Long-Term Contracts*

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

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

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

16. *Financial Instruments*

a) *Liabilities*

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

Borrowing at Variable Interest

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

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

Statutory regulations enable the Authority to negate the additional interest arising on LOBO's (if loan arranged before November 2007) by posting a reversal within the Movement in Reserves Statement to the Financial Instruments Adjustment Account.

The borrowings presented in the Balance Sheet are made up of the outstanding principal repayable plus accrued interest. Interest payable in the year is charged to the Comprehensive Income and Expenditure Statement.

Premiums and Discounts Arising from Premature Repayment of Debt.

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

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

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

b) Assets

Loans and Receivables

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

Soft Loans

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

Fair Value through the Comprehensive Income & Expenditure Statement

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

17. Employee Benefits

- ***Benefits Payable During Employment***

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

- ***Termination Benefits***

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

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

- ***Post-Employment Benefits***

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

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

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

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

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

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

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

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

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

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

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

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

- **Service Cost comprising:**
  - *Current service cost* - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
  - *Past service cost* - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years- debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
  - *Net interest on the net defined benefit liability (asset)* - e.g. net interest expense for the Authority - the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- **Remeasurements comprising:**
  - *The return on plan assets* - excluding amounts included in net interest on the net defined benefit liability (asset) - charged to the Pension Reserve as Other Comprehensive Income and Expenditure.
  - *Actuarial gains and losses* - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pension Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Pension Fund - cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

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

- ***Discretionary Benefits***

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

18. Value Added Tax (VAT)

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

19. Contingent Liabilities

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

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

20. Contingent Assets

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

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

21. Events after the Reporting Period

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

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

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

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

22. Collection Fund Adjustment Account

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

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

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

The difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and is included as a reconciling item in the Movement in Reserves Statement.

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

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

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

24. Schools

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

25. Investment Properties

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

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

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

26. Joint Operations

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

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

27. Fair Value Measurement

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

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

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

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

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

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

Level 3 - unobservable inputs for the asset or liability.

Statement of Responsibilities for the Statement of Accounts

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required to:

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

N RUSHTON
LEADER OF THE COUNTY COUNCIL AND CHAIRMAN OF THE CONSTITUTION COMMITTEE
29 SEPTEMBER 2017

THE DIRECTOR OF FINANCE RESPONSIBILITIES

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

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

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

I certify that the Statement of Accounts has been prepared in accordance with proper practices and presents a true and fair view of the financial position of Leicestershire County Council and its income and expenditure for the year ended 31 March 2017.

C TAMBINI
DIRECTOR OF FINANCE
29 SEPTEMBER 2017

Pension Fund

(Registration number: 00328856RQ)

Introduction

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

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

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

There were 33,302 contributors to the Fund as at 31 March 2017.

2. Actuarial Position:

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

The Council's actuary, Hymans Robertson LLP completed the latest triennial valuation, as at 31 March 2016. The change in contribution rates resulting from the actuarial valuation as at 31 March 2016 was effective from 1 April 2017 and for many employees there will be phased increases covering the period 1 April 2017 to 31 March 2020.

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

c) The 2016 valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,164m, were sufficient to meet approximately 76.2% of the liabilities accrued up to that date. Assets were valued at their market value.

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

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

Financial Assumptions	**31 Mar 2017**	**31 Mar 2016**
Pension Increase Rate	2.4%	2.2%
Salary Increase Rate	3.4%	3.2%
Discount Rate	2.6%	3.5%

Leicestershire County Council

3. In 2016/17 the average employer rate was 21.8% of pay (21.0% 2015/16).

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

5. List of admitted and scheduled bodies:

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

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

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

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

Other employers consisting of Bradgate Park Trust, Leicester and County Mission for the Deaf, SLM Community Leisure, Spire Homes, VISTA, Ashby Town Council, National Youth Agency and Seven Locks Housing.

Fund Account for the Year Ended 31 March 2017

2015/16 £m		Notes	2016/17 £m	
	Contributions and Benefits			
161.2	Contributions	3	169.5	
4.2	Transfers in	4	8.7	
165.4				**178.2**
(134.3)	Benefits	5	(143.1)	
(5.9)	Leavers	6	(11.9)	
(1.2)	Administrative Expenses	7	(1.4)	
(141.4)			**(156.4)**	
24.0	**Net additions from dealings with members**			**21.8**
	Returns on investments			
30.3	Investment income	8	37.5	
(13.5)	Change in market value of investments	9	662.2	
(5.1)	Investment management expenses	11	(4.6)	
11.7	**Net returns on investments**			**695.1**
35.7	**Net increase in the fund during the year**			**716.9**
	Net assets of the scheme			
3,128.1	At 1 April			3,163.9
	Net assets of the scheme			
3,163.9	**At 31 March**			**3,880.8**

Net Assets Statement as at 31 March 2017

2015/16 £m		Notes	2016/17 £m
3,157.6	Investment assets	9	3,876.3
(2.3)	Investment liabilities	9	(3.7)
3,155.3			**3,872.6**
10.9	Current Assets	13	11.4
(2.3)	Current Liabilities	13	(3.2)
3,163.9	**Net Assets of the Fund at 31 March**		**3,880.8**

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

The notes on pages 102 to 121 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 2016/17 financial year and its position at year-end as at 31st March 2017. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

2. *Accounting policies*

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

Investments

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

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

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

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

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

Investment Income

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

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

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

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

Foreign currencies

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

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

Contributions

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

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

Benefits payable

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

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

Transfers to and from other schemes

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

Other Expenses

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

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

3. *Contributions*

2015/16 £m		2016/17 £m
	Employers	
119.9	Normal	126.5
0.4	Voluntary additional	0.1
2.9	Advanced payments for early retirements	4.2
0.9	Additional payments for ill-health retirements	1.1
	Members	
36.7	Normal	37.2
0.4	Purchase of additional benefits	0.4
161.2	**Total**	**169.5**

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 paid by the insurance company, where the employer has taken out ill-health insurance and the claim has been accepted as valid. Purchase of additional benefits by members allows either extra service to be credited on top of any service earned via employment, or an additional annual pension amount in cash to be paid following retirement. Termination valuation payments relate to the actuarially assessed deficit within an employer's sub-fund when their last active employee leaves.

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

2015/16 £m		2016/17 £m
41.7	Leicestershire County Council	42.8
111.5	Scheduled bodies	118.8
8.0	Admitted bodies	7.9
161.2	**Total**	**169.5**

4. *Transfers In*

2015/16 £m		2016/17 £m
4.1	Individual transfers in from other schemes	8.7
4.1	**Total**	**8.7**

5. *Benefits*

2015/16 £m		2016/17 £m
103.3	Pensions	108.9
27.8	Lump sum retirement benefit	30.6
3.2	Lump sum death benefit	3.6
134.3	**Total**	**143.1**

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

2015/16 £m		2016/17 £m
50.9	Leicestershire County Council	52.2
73.3	Scheduled bodies	80.8
10.1	Admitted bodies	10.1
134.3	**Total**	**143.1**

6. *Payments to and on Account of Leavers*

2015/16 £m		2016/17 £m
0.6	Refunds to members leaving the scheme	0.7
0.3	Payments for members joining state scheme	0.2
5.0	Individual transfers to other schemes	11.0
0.0	Bulk transfers to other schemes	0.0
5.9	**Total**	**11.9**

7. *Administration Expenses*

2015/16 £m		2016/17 £m
1.0	Administration and processing	1.1
0.1	Actuarial fees	0.1
0.1	Computer system costs	0.2
1.2	**Total**	**1.4**

8. Investment Income

2015/16 £m		2016/17 £m
0.0	Income from fixed interest securities	0.0
2.5	Dividends from equities	2.2
0.1	Income from Government Bonds	0.1
2.6	Income from index-linked securities	1.8
18.0	Income from pooled investment vehicles	25.2
5.8	Net rents from properties	7.3
0.2	Interest on cash or cash equivalents	0.3
1.1	Net Currency Profit / (Loss)	0.6
0.0	Securities Lending Commission	0.0
0.0	Insurance Commission	0.0
30.3	**Total**	**37.5**

9. Investments

	Restated Value at 1 April 2016 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change In Market Value £m	Value at 31 March 2017 £m
Equities	72.2	31.5	(46.6)	20.4	77.5
Government Bonds	21.5	2.1	(24.9)	1.3	0.0
Index-linked securities	303.6	339.5	(345.6)	75.8	373.3
Pooled investment vehicles	2,636.5	169.0	(342.2)	606.8	3,070.1
Properties	96.2	0.2	(1.0)	0.9	96.3
Cash and currency	14.8	223.3	0.0	0.0	238.1
Derivatives contracts	8.4	67.8	(17.7)	(42.9)	15.6
Other investment balances	2.1	0.0	(0.4)	0.0	1.7
Total	**3,155.3**	**833.4**	**(778.4)**	**662.3**	**3,872.6**

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 investments of £268.804m in the Legal & General North America index fund (31/3/16, £233.087m) and £262.991m in the Legal & General FTSE RAFI North America fund (31/3/16, £229.777m) that exceed 5% of the total value of net assets.

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

2015/16 £m		2016/17 £m
	Equities	
10.0	UK quoted	24.6
62.2	Overseas quoted	52.9
72.2		**77.5**
	Government Bonds	
21.5	***UK Government Quoted***	**0.0**
	Index Linked Securities	
188.2	UK quoted	331.8
115.5	Overseas quoted	41.4
303.7		**373.2**
	Pooled investment vehicles (unquoted)	
222.4	Property funds	223.0
121.0	Private equity	142.7
347.4	Bond and debt funds	337.9
3.2	Hedge funds	0.6
1,563.2	Equity-based funds	1,876.7
7.4	Commodity-based funds	9.8
63.9	Timberland fund	80.4
137.8	Managed futures fund	124.8
84.1	Targeted return fund	96.2
86.1	Infrastructure fund	178.1
2,636.5		**3,070.2**
	Properties	
96.2	**UK (Note 12)**	**96.3**
14.8	**Cash and currency**	**238.1**
	Derivatives contracts	
9.0	Forward foreign exchange assets	15.7
0.2	Currency option assets	0.9
1.4	Other option assets	2.7
(2.3)	Forward foreign exchange liabilities	(3.7)
0.0	Currency option liabilities	0.0
8.3	**Sterling Denominated**	**15.6**
2.1	**Other Investment Balances**	**1.7**
3,155.3	**Total Investments**	**3,872.6**

At 31 March 2017 pooled investment vehicles include investments in fund-of-funds which have an underlying value of £141.255m in private equity, £11.510m in illiquid corporate bonds and £80.371m in timberland.

10. Derivatives

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

Forward Foreign Exchange Contracts

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

2015/16 £m		2016/17 £m
(1.5)	Active currency positions (those whose purpose is solely to seek economic gain)	(0.8)
8.2	Passive currency positions (those whose purpose is to hedge the Fund's benchmark exposure to currencies back to sterling)	12.7
6.7	**Total**	**11.9**

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:

2015/16 £m		2016/17 £m
0.2	Currency-based	0.9
1.4	Equity rate-based	2.7
1.6	**Total**	**3.6**

11. Investment Management Expenses

2015/16 £m		2016/17 £m
5.0	Administration, management and custody	4.5
0.1	Other advisory fees	0.1
5.1	**Total**	**4.6**

12. *Property Investments*

31 March 2016 £m		31 March 2017 £m
64.6	Freehold	64.8
15.5	Long Leasehold (over 50 years unexpired)	16.1
16.1	Medium/Short Leasehold (under 50 years unexpired)	15.3
96.2	**Total**	**96.2**

13. *Current Assets and Liabilities*

2015/16 £m		2016/17 £m
8.2	Contributions due from employers	8.5
0.1	Cash Balances	0.1
0.8	Other Debtors	1.3
1.8	Due from Ministry of Justice	1.5
10.9	**Current assets**	11.4
(0.4)	Due to Leicestershire County Council	(0.8)
(0.9)	Fund Management Fees Outstanding	(0.9)
(1.0)	Other Creditors	(1.5)
(2.3)	**Current liabilities**	**(3.2)**
8.6	**Net current assets and liabilities**	**8.2**

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

The amount due from the Ministry of Justice relates to the actuarially assessed deficit in respect of Magistrates' Court staff that were formerly in the LGPS. The amount is payable over 10 years at £365,000 per annum, and at 31st March 2017 there were four more payments due.

14. *Analysis of Investments by Manager*

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

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

At 31 March 2016 £m	%		At 31 March 2017 £m	%
		Investment Manager		
1,188.6	37.6	Legal & General	1,379.1	35.6
273.5	8.7	Kames Capital	352.3	9.1
215.0	6.8	Ruffer LLP	243.2	6.3
140.8	4.5	Kleinwort Benson Investors	185.4	4.8
166.8	5.3	Aviva Investors	172.0	4.4
108.9	3.4	Delaware Investments	156.4	4.0
119.0	3.8	Adams Street Partners	141.3	3.7
107.9	3.4	Kempen Capital	136.3	3.5
137.8	4.4	Aspect Capital	124.8	3.2
124.4	3.9	Colliers Capital UK	116.8	3.0
80.3	2.5	Ashmore	107.2	2.8
105.0	3.3	Partners Group	106.0	2.7
24.6	0.8	JP Morgan Asset Management	96.5	2.5
84.1	2.7	Pictet Asset Management	96.2	2.5
120.0	3.8	Prudential / M&G	87.0	2.2
63.9	2.1	Stafford Timberland	80.4	2.1
43.0	1.4	Industry Funds Management	59.7	1.6
43.0	1.4	Kravis Kohlberg Roberts	48.1	1.3
2.1	0.0	Catapult Venture Managers	1.4	0.0
0.7	0.0	Permal (formerly Fauchier Partners)	0.6	0.0
5.9	0.2	Internally Managed and Currency Managers	181.9	4.7
0.0	0.0	Investec Asset Management	0.0	0.0
0.0	0.0	Capital International	0.0	0.0
3,155.3		**Total**	**3,872.6**	

15. *Custody of Assets*

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

16. *Operation and Management of fund*

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

17. Employing bodies and fund members

A full list of all bodies that have active members within the Fund is included on page 101.

18. Actuarial valuation

At the date of the Fund's last actuarial valuation (31 March 2016) the Fund had assets of £3,164m. At that date the Fund's assets covered 76.2% of its accrued liabilities.

19. Valuation of financial instruments carried at fair value

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

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

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

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

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

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

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

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

Values at 31st March 2017	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value	2,843,584	631,019	401,749	3,876,352
Financial liabilities at fair value	(3,738)			(3,738)
Net financial assets	**2,839,846**	**631,019**	**401,749**	**3,872,614**

Values at 31st March 2016	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value	2,241,986	641,395	274,207	3,157,588
Financial liabilities at fair value	(2,277)			(2,277)
Net financial assets	**2,239,709**	**641,395**	**274,207**	**3,155,311**

20. Nature and Extent of Risks Arising from Financial Instruments

Risk and risk management

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

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

a) Market risk

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

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

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historic data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, Leicestershire County Council has determined that the following movements in market prices risk are reasonably possible for the 2017/18 reporting period:

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

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

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

Asset type	Value at 31st March 2017	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
UK equities	24,577	16	28,509	20,645
Overseas equities	52,962	19	63,025	42,899
UK Government Bonds	0	0	0	0
Global index-linked bonds	373,278	8	403,140	343,416
Pooled property funds	223,022	15	256,475	189,569
Pooled private equity funds	142,701	28	182,657	102,745
Pooled bond and debt funds	337,870	10	371,657	304,083
Pooled hedge funds	563	12	631	495
Pooled equity funds	1,876,706	19	2,233,280	1,520,132
Pooled commodity funds	9,814	14	11,188	8,440
Pooled targeted return funds	96,178	12	107,719	84,637
Pooled timberland fund	80,371	16	93,230	67,512
Pooled managed futures fund	124,804	12	139,780	109,828
Pooled infrastructure fund	178,114	14	203,050	153,178
UK property	96,294	15	110,738	81,850
Cash and currency	238,097	1	240,478	235,716
Options, futures, other investment balances, current assets and current liabilities	25,445	1	25,699	25,191
Total assets available to pay benefits	**3,880,796**		**4,471,256**	**3,290,336**

Asset type	Value at 31st March 2016	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
UK equities	9,991	16	11,590	8,392
Overseas equities	62,243	19	74,069	50,417
UK Government Bonds	21,501	8	23,221	19,781
Global index-linked bonds	303,669	8	327,963	279,375
Pooled property funds	222,379	15	255,736	189,022
Pooled private equity funds	121,096	28	155,002	87,190
Pooled bond and debt funds	347,372	10	382,109	312,635
Pooled hedge funds	3,201	12	3,585	2,817
Pooled equity funds	1,563,238	19	1,860,253	1,266,223
Pooled commodity funds	7,371	14	8,403	6,339
Pooled targeted return funds	84,129	12	94,224	74,034
Pooled timberland fund	63,856	16	74,072	53,640
Pooled managed futures fund	137,824	12	154,363	121,285
Pooled infrastructure fund	86,054	14	98,102	74,006
UK property	96,225	15	110,659	81,791
Cash and currency	14,759	1	14,907	14,611
Options, futures, other investment balances, current assets and current liabilities	18,964	1	19,154	18,774
Total assets available to pay benefits	**3,163,872**		**3,667,412**	**2,660,332**

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 2017 and 31st March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

As at 31st March 2016 £000	Asset type	As at 31st March 2017 £000
14,759	Cash and Currency	238,097
368,873	Fixed interest securities	337,870
383,632	**Total**	**575,967**

Interest rate risk sensitivity analysis

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

Asset type	Carrying amount as at 31st March 2017	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and Currency	238,097	2,381	(2,381)
Fixed interest securities	337,870	3,379	(3,379)
Total	**575,967**	**5,760**	**(5,760)**

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

Currency risk

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

The Fund's currency rate risk is actively managed and the neutral position is to hedge 70% of the exposure back to sterling. The table below summarises the Fund's currency exposure if it was unhedged at as 31st March 2017 and as at the previous period end:

Restated Asset value as at 31st March 2016 £000	Currency exposure – asset type	Asset value as at 31st March 2017 £000
62,243	Overseas equities	52,962
115,472	Overseas government index-linked bonds	41,432
118,888	Private equity pooled funds	141,255
3,201	Pooled hedge Funds	563
1,298,478	Overseas and Global equity-based pooled funds	1,876,706
7,371	Commodity-based pooled funds	9,814
86,054	Infrastructure pooled funds	178,114
63,856	Timberland pooled fund	80,371
80,343	Emerging Market Debt pooled fund	107,202
1,835,906	**Total overseas assets**	**2,488,419**

Currency risk – sensitivity analysis

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

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

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

Currency exposure – asset type	Asset value as at 31st March 2017	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas equities	52,962	59,847	46,077
Overseas government index-linked bonds	41,432	46,818	36,046
Private equity pooled funds	141,255	159,618	122,892
Pooled hedge Funds	563	636	490
Overseas equity-based pooled funds	1,876,706	2,120,678	1,632,734
Commodity-based pooled funds	9,814	11,090	8,538
Infrastructure pooled funds	178,114	201,269	154,959
Timberland pooled fund	80,371	90,819	69,923
Emerging Market Debt pooled fund	107,202	121,138	93,266
Total change in assets available	**2,488,419**	**2,811,913**	**2,164,925**

At 31st March 2017 and 31st March 2016 the Fund has an active currency manager with a portfolio based on a notional value of £340m, and this is the maximum exposure that they are allowed to have. In order to achieve gains within their portfolios they utilise forward foreign exchange contracts and, on occasions, currency options. The portfolios have an average target volatility of 2.5% and as a result the Fund is exposed to currency risk through these portfolios. The table below shows the likely impact onto the net assets available to pay benefits.

Currency exposure – asset type	Asset value as at 31st March 2017	Change to net assets available to pay benefits	
		+2.5%	-2.5%
	£000	£000	£000
Active currency portfolios	340,000	348,500	331,500
Total change in assets available	**340,000**	**348,500**	**331,500**

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

b) Credit risk

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

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

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

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

Deposits are not made with banks and financial institutions unless they are rated independently and have a high credit rating. Many of the Fund's investment managers use the money market fund run by the Fund's custodian to deposit any cash within their portfolios, although one manager (Kames Capital) lends cash directly to individual counterparties in the London money markets. Any cash held directly by the Fund is deposited in an instant access interest-bearing account with National Westminster Bank or in a Money Market Fund.

The Fund believes it has managed its exposure to credit risk, and has never had any experience of default of uncollectible deposits. The Fund's cash holding at 31st March 2017 was £238.1m (31st March 2016: £14.8m).

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 2017 the value of illiquid assets (considered to be the Fund's investments in property, hedge funds, private equity, timberland and infrastructure) was £721.1m, which represented 18.6% of total Fund assets. (31st March 2016: £594.8m, which represented 18.8% 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 2017 are due within one year.

Refinancing risk
The key risk is that the Fund will be forced to sell a significant proportion of its financial instruments at a time of unfavourable interest rates, but this appears a highly unlikely scenario. The Fund's investment strategy and the structure of its portfolios have sufficient flexibility to ensure that any required sales are considered to be the ones that are in the best financial interests of the Fund at that time. There are no financial instruments that have a refinancing risk as part of the Fund's treasury management and investment strategies.

Securities Lending
The Fund ceased to take part in securities lending activities towards the end of the financial year and there was no stock on loan at 31 March 2017

Income from stock lending for the part-year that it was undertaken amounted to £0.012m and is detailed in note 8 to the accounts.

Reputational Risk
The Fund's prudent approach to the collective risks listed above and through best practice in corporate governance ensures that reputational risk is kept to a minimum.

21. *Related Party Transactions*

From the information currently available there were no material transactions with related parties in 2016/17 that require disclosure under FRS8.

22. *Contingent Liabilities*

When a member has left the Pension Fund before accruing sufficient service to qualify for a benefit from the scheme, they may choose either a refund of contributions or a transfer value to another pension fund. There are a significant number of these leavers who have not taken either of these options and as their ultimate choice is unknown, it is not possible to reliably estimate a liability. The impact of these 'frozen refunds' has, however, been considered in the calculation of the actuarial liabilities of the fund.

If all of these individuals choose to take a refund of contributions the cost to the Fund will be around £1.3m, although the statutory requirement of the Fund to pay interest to some members would increase this figure. Should all of the members opt to transfer to another scheme the cost will be considerably higher.

23. Contractual Commitments

At 31st March 2017, the Fund had the following contractual commitments:-

(i) Undrawn commitments totalling $199,891,850 (£159,855,932) to thirty one different pooled private equity funds managed by Adams Street Partners (31st March 2016 £102,340,465 to twenty eight different funds).
(ii) An undrawn commitment of £497,666 to two private equity funds managed by Catapult Venture Managers (31st March 2016 £528,517 to two funds).
(iii) An undrawn commitment of $22,221,391 (£17,770,715) to two KKR Global Infrastructure funds (31st March 2016 £19,081,060 to two funds)
(iv) An undrawn commitment of €5,362,500 (£4,586,717) to the Stafford International Timberland VI Fund (31st March 2016 £6,431,922)
(v) An undrawn commitment of $3,300,000 (£2,639,050) to the Stafford International Timberland VII Fund (31st March 2016 £8,035,901).
(vi) An undrawn commitment of £20,048,000 to the M & G Debt Opportunities Fund III (31st March 2016 £27,374,000)
(vii) An undrawn commitment of $7,500,000 (£5,997,841) to the IFM Global Infrastructure Fund (31st March 2016 £10,436,235).
(viii) An undrawn commitment of $39,752,618 (£31,790,650) to the Markham Rae Trade Capital Partners Fund (31st March 2016 £27,829,959)
(ix) An undrawn commitment of £18,181,818 to the Kames Active Value Property Unit Trust II

24. Additional Voluntary Contributions (AVC's)

The Fund has an arrangement with Prudential whereby additional contributions can be paid to them for investment, with the intention that the accumulated value will be used to purchase additional retirement benefits. AVCs are not included in the Pension Fund Accounts in accordance with Regulation 4(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009.

During 2016/17 £1.8m in contributions were paid to Prudential and at the year end the capital value of all AVC's was £14.2m.

25. Policy Statements

The Fund has a number of policy statements that are available on request from Colin Pratt, Investment Manager, Leicestershire County Council, County Hall, Glenfield, Leicester. LE3 8RB (telephone 0116 3057656, email colin.pratt@leics.gov.uk). They have not been reproduced within the Accounts as, in combination, they are sizeable and it is not considered that they would add any significant value to most users of the accounts. The Statements are:

Statement of Investment Principles (SIPs)
Communications Policy Statement
Funding Strategy Statement (FSS)

26. Compliance Statement

Income and other taxes
The Fund has been able to gain either total or partial relief from local taxation on the Fund's investment income from eligible countries. The Fund is exempt from UK Capital Gains and Corporation tax.

Self-investment
There has been no material employer related investment in 2016/2017 or 2015/2016. There were occasions on which contributions were paid over by the employer later than the statutory date, and these instances are technically classed as self-investment. In no instance were the sums involved material, and neither were they outstanding for long periods.

Calculation of transfer values
There are no discretionary benefits included in the calculation of transfer values.

Pension Increase
All pension increases are made in accordance with the Pensions Increase (Review) Order 1997.

Changes to LGPS
All changes to LGPS are made via the issue of Statutory Instruments by Central Government.

28. Pension Fund Accounts Reporting Requirement

Leicestershire County Council Pension Fund ("the Fund")
Actuarial Statement for 2016/17

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

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

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

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

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

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

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

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

Method

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

Assumptions

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

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

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

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

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

* Age 45 at the 2016 Valuation.

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

D. Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017.

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

Barry McKay

Barry McKay FFA
For and on behalf of Hymans Robertson LLP, 20 Waterloo Street, Glasgow, G2 6DB
5 May 2017

Statement of Responsibilities for Leicestershire County Council Pension Fund

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required to:

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

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

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

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

The Director of Finances has also;

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

I certify that the above responsibilities have been complied with and the Statement of Accounts herewith presents a true and fair view of the financial position of the Leicestershire County Council Pension Fund as at 31 March 2017 and its income and expenditure for the year ended the same date.

C TAMBINI
DIRECTOR OF FINANCE
29 SEPTEMBER 2017

Audit Opinion

Annual Governance Statement (AGS) 2016/17

1. INTRODUCTION

Leicestershire County Council (the Council) is responsible for ensuring that its business is conducted in accordance with prevailing legislation, regulation, government guidance and that proper standards of stewardship, conduct, probity and professional competence are set and adhered to by all those representing and working for and with the Council. This ensures that the services provided to the people of Leicestershire are properly administered and delivered economically, efficiently and effectively. In discharging this responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs.

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

2. WHAT IS CORPORATE GOVERNANCE?

Corporate Governance is defined as how organisations ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. The Council's governance framework comprises the systems and processes, cultures and values by which the Council is directed and controlled. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

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

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

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

3. WHAT THE AGS TELLS YOU

The AGS provides a summarised account of how the Council's management arrangements are set up to meet the principles of good governance and how we obtain assurance that these are both effective and appropriate. It is written to provide the reader with a clear, simple assessment of how the governance framework has operated over the past financial year and to identify any developments required. The main aim of the AGS is to provide the reader with confidence that the Council has an effective system of internal control that manages risks to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The revised Framework requires local authorities to review arrangements against their Local Code of Corporate Governance. The Council's Local Code of Governance has been revised so that it is consistent with the seven core principles of the Framework. The Local Code will be developed during 2017/18. The principles contained in the Framework have been applied to the preparation of the AGS for the financial year 2016/17.

4. HOW THIS STATEMENT HAS BEEN PREPARED

There is a statutory requirement in England, for a local authority to conduct a review at least once in each financial year of the effectiveness of its governance framework including the system of internal control. This review requires the sources of assurance, which the Council relies on, to be brought together and reviewed – from both a departmental and corporate view.

To ensure this AGS presents an accurate picture of governance arrangements for the whole Council, each Director was required to complete a 'self-assessment', which provided details of the measures in place within their department to ensure conformance (or otherwise) with the seven core principles of the new Framework.

The self-assessments contained a set of conformance statements under each core principle, which required a corresponding score of 1, 2 or 3 based on the criteria below:

Score	Definition	Description	Evidence (all inclusive)
1	Good	Conformance against the majority of the areas of the benchmark is good, although there may be minor developments required but with a limited impact on the ability to achieve departmental and Council objectives. Strategic, reputational and/or financial risks are minor and performance is generally on track.	Many elements of good practice to a high standard and high quality; Substantial assurance can be given that coverage of the sub-principle is operating satisfactorily and extends to most/all services areas within the department
2	Some development/ areas for improvement	There are some developments required against areas of the benchmark and the department may not deliver some of its own and the Council objectives unless these are addressed. The management of strategic, reputational and/or financial risks is inconsistent and performance is variable across the department.	Some elements of good practice to a high standard and high quality; Moderate assurance can be given that coverage of the sub-principle is working adequately in certain service areas, with omissions in others; Proposal/Plans are in place to address perceived shortfalls

3	Key development and many areas for improvement	Conformance against many/all areas of the benchmark is poor and therefore delivery of departmental and Council objectives is under threat. There are many strategic, reputational and/or financial risks and performance is off track.	Few elements of good practice to a high standard and high quality; Coverage of this expectation is omitted amongst most areas; Proposal/Plans to address perceived shortfalls are in early stages of development

The application of a more quantitative approach to assessing conformance against the Framework will allow the Corporate Management Team, Members and the public at large to obtain necessary assurance that the Council operates within an adequate governance framework, thus complying with the seven core principles and best practice. In addition to the above, senior officers assessed arrangements for managing issues that apply across all departments. Whilst the self- assessments identified many sources of assurance and were transparent in reporting areas for action, the tables below only include the key areas where development is necessary.

The senior management group charged with responsibility for producing the 2016/17 AGS has determined that progress on the development areas identified against each Principle below should be the responsibility of service managers during 2017/18.

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
Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law		The level of conformance is generally good, and the following key areas are noted: • Revision of values and behaviours • A statement of business ethics is to be developed for the Council's supply chain. The Council's contract management approach is still evolving and impacts upon the Council's ability to track the supply chain. However, an annual contract management questionnaire will be developed to check conformance with and promotion of ethical values and fraud awareness.
Principle B: Ensuring openness and comprehensive stakeholder engagement		The level of conformance is reasonable however further development is required in: • Clearer and up to date map of feedback consulting and engagement channels and improve Community Engagement mechanisms with regard to local issues and service priorities • Complete draft, consult, engage on and embed new Outcomes Framework and related plans for 2017-2021. • Progressing the Leicester and Leicestershire Combined Authority as a further platform for enhanced partnership working.

Principle C. Defining outcomes in terms of sustainable economic, social, and environmental benefit		The level of conformance is good – see Principle B for details of areas where further development is required
Principle D. Determining the interventions necessary to optimise the achievement of the intended outcomes		Further development is noted in the following areas: • Contract management and shared agency risks are identified and dealt with appropriately. • Refresh of departmental key performance metrics and dashboards linked to new outcomes framework. • Implementation of recommendations from Ofsted Inspection • Continue to roll out self-service performance dashboards for managers through business intelligence and identification of service quality issues more explicitly in performance reporting.
Principle E. Developing the entity's capacity including the capability of its leadership and the individuals within it		The level of conformance is good.
Principle F. Managing risks and performance through robust internal control and strong public financial management		The level of conformance is generally good, and the following key areas are noted: • Continuing to improve contract management and monitoring/ reporting of key contracts and quality. • Greater validation processes within key databases. More digital support for front line managers in managing data and provision of data quality reports to identify weaker areas.
Principle G. Implementing good practices in transparency reporting and audit to deliver effective accountability		The level of conformance is good.

5. REVIEW OF EFFECTIVENESS

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

The Control Environment of Leicestershire County Council

The Council's Constitution includes Standing Financial Instructions, Contract Procedure Rules and Schemes of Delegation to Chief Officers. These translate into key operational internal controls such as: control of access to systems, offices and assets; segregation of duties; reconciliation of records and accounts; decisions and transactions authorised by nominated officers; and production of suitable financial and operational management information. These controls demonstrate governance structures in place throughout the Council

Internal Audit Service

Internal Audit Service

Leicestershire County Council Internal Audit Service (LCCIAS) should conform to the Public Sector Internal Audit Standards (the PSIAS). The PSIAS were updated in April 2016 and revisions were reflected in an updated Internal Audit Charter mandating the purpose, authority and responsibility of the internal audit activity at the Council, which was approved by Corporate Governance Committee in November 2016. The Charter allows the Head of Internal Audit Service (HoIAS) to also be responsible for the administration and development of, and reporting on, the Council's risk management framework. Whilst this does present a potential impairment to independence and objectivity, the HoIAS arranges for any assurance engagement to be overseen by someone outside of the internal audit activity.

The HoIAS conducted a light touch self-assessment of LCCIAS' conformance to the PSIAS. The self-assessment identified that current practices generally sufficiently conform to the PSIAS. Whilst, a few specific areas have been identified where action is needed, these are not significant deviations to the PSIAS. The HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS. The Service will be subject to an independent external assessment in the latter part of 2017/18.

In order to meet a PSIAS requirement to form an opinion on the overall adequacy and effectiveness of the Council's control environment i.e. the framework of governance, risk management and control, the HoIAS constructs an annual risk based plan of audits. Given the overall improvements in risk management at the Council, the plan is primarily based on the contents of corporate and department risk registers to ensure current and emerging risks are adequately covered. Parts of the plan relate to audits of the key financial systems that are used by the External Auditor in their audit of the financial accounts. A contingency is retained for unforeseen risks, special projects and investigations.

Audit reports often contain recommendations for improvements. The number, type and importance of recommendations affects how the auditor reaches an opinion on the level of assurance that can be given that controls are both suitably designed and are being consistently applied, and that material risks will likely not arise. The combined sum of individual audit opinions and other assurances gained throughout the year (e.g. involvement in governance groups, attendance at Committees, evaluations of other assurance providers), facilitate the HoIAS to form the annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk management and control framework (i.e. the control environment).

The HoIAS presents an annual report to the Corporate Governance Committee in May. The annual report incorporates the annual internal audit opinion; a summary of the work that supports the opinion; and a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme. The HoIAS Sub-Opinions for 2016/17 are: -

Governance – There has been transparent reporting of the Help to Live at Home (HTLAH) situation in the AGS. Nothing else of significance, adverse nature or character has come to the HoIAS attention. As such reasonable assurance is given that the Council's governance arrangements are robust.

Risk management - Management has shown good engagement around risk and agreed to implement audit recommendations, which further mitigates risk. Therefore reasonable assurance is given that risk is managed.

Financial and ICT Control – Whilst recognising there have been some control failings during the year, reasonable assurance can be given that the Council's core financial and I&T controls remain strong.

Internal Audit Service for 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 provided by Nottingham City Council.

On the basis of audit work undertaken during the 2016/17 financial year, covering financial systems, risk and governance, the Head of Internal Audit (HoIA) at Nottingham City Council concluded that a "significant" level of assurance could be given that internal control systems are operating effectively within EMSS and that no significant issues had been discovered.

Risk Management

The Corporate Governance Committee has a responsibility to ensure that an effective risk management system is in place. Risk management is about identifying and managing risks effectively, helping to improve performance and aid bold decision making relating to the development of services and the transformation of the wider organisation. The Council's Risk Management Policy and Strategy provide the framework within which these risks can be managed.

The Policy and Strategy were reviewed, revised and approved by Cabinet in February 2017. Regular reports are provided to the Corporate Governance Committee

Corporate Governance Committee

The Corporate Governance Committee is responsible for promoting and maintaining high standards of corporate governance within the Council and receives reports and presentations that deal with issues that are paramount to good governance.

During 2016/17 the Committee has provided assurance that: an adequate risk management framework is in place; the Council's performance is properly monitored; and that there is proper oversight of the financial reporting processes. The Committee receives regular reports on: progress of internal audit work; treasury management; Regulation of Investigatory Powers Act (RIPA); anti-fraud initiatives; and extended risk management information on business continuity and insurance. The table below provides summary information of other key business considered by this Committee to support the above.

May 2016	September 2016	November 2016	February 2017
Annual Treasury Management Report 2015/16	External Audit of the 2015/16 Statement of Accounts and the Annual Governance Statement	Annual Audit Letter 2015/2016	External Audit Plan 2016/17
Quarterly Treasury Management Report	Ombudsman Annual Review 2015-16 and Corporate Complaint Handling	Revisions to the Public Sector Internal Audit Standards and Internal Audit Charter	Treasury Management Strategy Statement and Annual Investment Strategy 2017/18
Draft Annual Governance Statement 2015/16	Annual Report on the Operation of Members' Code of Conduct 2015/16	Clinical Governance Update	Quarterly Treasury Management Update
Quarterly Risk Management Update	Quarterly Treasury Management Update	Quarterly Treasury Management Report	Quarterly Risk Management Update
Internal Audit Service Quarterly Progress Report	Quarterly Risk Management Update	KPMG – Technical Update	Internal Audit Service Quarterly Progress Report
Internal Audit Annual Report 2015/16	Internal Audit Service Quarterly Progress Report	Proposed Changes to the Standard Financial Instructions	Annual Report on Grants and Returns 2015/16
Internal Audit Service Audit Plan 2016/17	Proposed Changes to the Contract Procedure Rules	Quarterly Risk Management Update	Delegation by Leicester City Council of its Internal Audit Function
		Internal Audit Service Quarterly Progress Report	Revised Members' Planning Code Of Good Practice
		Court Surveillance and Regulation of Investigatory Powers Act 2000 (RIPA) – Annual Report	

External Audit

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

- **Council's Medium Term Financial Strategy (2016-20)**
  - The Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.
  - The Authority has robust plans in place to address the financial challenge.
  - Given the uncertainties and risks that lie ahead for the sector as a whole, and the individual pressures and challenges the Authority faces in the short to medium term, the level of reserves are appropriate for the size of the organisation.
- **Opinion on the 2015/16 Annual Statement of Accounts**
  - No significant audit or accounting issues and no material deficiencies in internal control and that the Annual Statement of Accounts presented a true and fair view, in accordance with the relevant codes and regulation.
- **Annual Audit Strategy and Plan (for the 2016/17 Accounts)**
  - Initial meetings and risk assessment have been undertaken by KPMG in February- March 2017 and with provision of relevant information by the Internal Audit Service which will assist KPMG to determine the planned audit approach for further testing during June to August 2017 before reporting the Audit Opinion in September 2017.

The Role of the Chief Financial Officer (CFO)

The Director of Finance (Corporate Resources Department) undertakes the role of the Chief Financial Officer (CFO) for the Council. The CFO is a key member of the Corporate Management Team and is able to bring influence to bear on all material business decisions, ensuring that immediate and long term implications, opportunities and risks, are fully considered and in alignment with the MTFS and other corporate strategies. The CFO is aware of, and committed to, the five key principles that underpin the role of the CFO, and has completed an assurance statement that provides evidence against core activities which strengthen governance and financial management across the Council.

The Role of the Head of Internal Audit

The Council's Internal Audit Service arrangements conform to the governance requirements and core responsibilities of the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010). The Head of Assurance Services undertakes the role of Head of Internal Audit Service (HoIAS) and works with key members of the Corporate Management Team to give advice and promote good governance throughout the organisation. The HoIAS leads and directs the Internal Audit Service so that it makes a full contribution to and meets the needs of the Authority and external stakeholders, escalating any concerns and giving assurance on the County Council's control environment. The HoIAS has completed an assurance statement, providing evidence against core activities and responsibilities which strengthen governance, risk management and internal control across the Authority.

The Role of the Monitoring Officer

The Monitoring Officer has responsibility for:

- ensuring that decisions taken comply with all necessary statutory requirements and are lawful. Where in the opinion of the Monitoring Officer any decision or proposal is likely to be unlawful and lead to maladministration, he/she shall advise the Council and/or Executive accordingly,
- ensuring that decisions taken are in accordance with the Council's budget and it's Policy Framework
- providing advice on the scope of powers and authority to take decisions

In discharging this role the Monitoring Officer is supported by officers within the Legal and Democratic Services Teams.

6. ACTION TAKEN ON GOVERNANCE ISSUES REPORTED IN THE 2015/16 AGS

Progress that has been made in dealing with the governance issue that was identified in the 2015/16 AGS is detailed below:

Ref	Issue /Area for Improvement (AGS) 2015/16	Progress during 2016/17
1	**Deprivation of Liberty Standards** A Supreme Court Case Ruling during 2015/16 led to a large increase in service users entitled to assessment and review. The risk to the Council is that legal requirements would not be met within the timescales.	Action has been taken to: • significantly increase budgets for 2016/17and later years • recruit and train an increased workforce to meet the urgent demands The waiting list has reduced as a result of extra agency capacity in 2016/17 to a manageable number. However the risk that legal requirements would not be met has reduced, but still remains

7. SIGNIFICANT GOVERNANCE ISSUES ARISING DURING 2016/17

This Annual Governance Statement identifies that the Council has effective arrangements in place, but that we recognise the need to continuously review, adapt and develop our governance arrangements to meet the changing needs of the organisation. Whilst the Council has identified areas to be developed (see section 4), it is important to recognise that there was one significant issue set out in the table below.

Ref	Issue /Area for Improvement (2016/17)	Lead Officer and Date
1	**<u>Help to Live at Home</u>** In November 2016, following a late withdrawal by a contracted provider of adult home care services, the Council was subject to criticism over its preparations, plans and arrangements for delivering the Help to Live at Home Programme, a joint procurement with the NHS. This impacted the Council's reputation for a short period of time and led to the Council's Cabinet Member for Adult Social Care apologising to service users whose care had been affected. Whilst the great majority of service users have received the care required the Council recognises there had been quality failings for some service users. Urgent action was taken by the service to ensure service continuity and the safety and wellbeing of service users. A pre-planned lessons learned exercise has been undertaken in conjunction with NHS partners. Outcomes of this are due to be reported to the Health partners' boards and the Council's Adults and Communities Overview and Scrutiny in the early summer.	Director of Adults & Communities September 2017

8. FUTURE CHALLENGES

Significant challenges faced by the County Council such as continuing funding reductions, delays to the localisation of business rates, progressing the transformation programme, driving further Health and Social Care integration (under the NHS Leicester, Leicestershire and Rutland Sustainability and Transformation Plan) and changes to the Better Care Fund are detailed within the Corporate Risk Register, which is regularly presented to the Corporate Management Team and Corporate Governance Committee. Managing these risks adequately will be an integral part of both strategic and operational planning; and the day to day running, monitoring and maintaining of the County Council. New challenges continue to emerge in particular:

- Monitoring the impacts of Brexit on the local economy, and increased level of uncertainty around local government finances following the general election and the constraints of a minority government.
- The Independent Inquiry into Child Sexual Abuse (Jay Inquiry). The public hearing of the Janner Investigation is now likely to be held in 2018, and will focus as originally intended, on lessons to be learned where institutional failings are identified, including those of the County Council.
- Following the outcome of the recent Ofsted inspection of children's social care services in Leicestershire, an Action Plan has been developed to address the recommendations in the Ofsted Report and includes proposals for the future development and improvement of services to children and families.
- Addressing increasing pressures on the children's social care placement budget, which funds the care of vulnerable children.
- Following the tragic events at Grenfell House in West London in June 2017, the County Council commenced an immediate review of fire risk management.

9. CERTIFICATION

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Corporate Governance Committee and that the arrangements continue to be regarded as fit for purpose.

We propose over the coming year to take steps to address any matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for any developments that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Furthermore, having considered all the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, we are satisfied that the Council has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

John Sinnott Chief Executive	Nicholas Rushton Leader of the Council

Glossary of Terms

ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements.

AMORTISED COST

The amortised cost of a financial asset or financial liability is:

- the amount at which the asset or liability is measured at initial recognition (usually "cost")
- *minus* any repayments of principal,
- *minus* any reduction for impairment or uncollectibility, and
- *plus or minus* the cumulative amortisation of the difference between that initial amount and the maturity amount.

CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty within 24 hours. Cash equivalents are investments of less than 3 months from acquisition that are readily convertible to known amounts of cash with insignificant risk of a change in value.

CAPITAL RECEIPTS

Income from the sale of capital assets. Such income may only be used to repay loan debt or to finance new capital expenditure.

CAPITAL RESERVE

An internal reserve of the Council which is used to generate monies for financing capital expenditure thus avoiding the need to borrow externally.

COLLECTION FUND

The fund administered by each authority collecting Council Tax and National Non Domestic Rates (district councils in shire areas). The Authority precepts on these funds to finance its net expenditure after taking into account other sources of income, e.g. Government Grants, and charges for services.

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

A summary of the resources generated and consumed by the authority in the year. Includes details of how the movement in net worth in the Balance Sheet is identified to the Comprehensive Income and Expenditure Statement surplus/ deficit and to other unrealised gains and losses.

CREDITORS

Amounts owed by the Authority for work done, goods received or services rendered but for which payment has not been made by the end of the financial year.

DEBTORS

Amounts due to the Authority but unpaid at the end of the financial year.

DEFERRED CAPITAL RECEIPTS

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

FAIR VALUE

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction at the market date. Fair value is referred to as the exit price.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
A statement of common accounting practice, devised by the International Accounting Standards Board, which is applicable to the majority of large organisations, both public and private sector.

GENERAL FUND
The main revenue fund of the Authority. Precept income, National Non-Domestic Rate income and government grants are paid into the fund, from which the cost of providing services is met.

IMPAIRMENT
A loss in the value of a fixed asset, arising from physical damage such as a major fire or a significant reduction in market value. In addition a reduction in value where there is insufficient unrealised gains in the revaluation reserve for that asset.

INFRASTRUCTURE
The network of roads, bridges, sewers, lighting etc.

INTANGIBLE ASSET
Non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the Authority through custody or legal rights (e.g. purchased software licences).

LEASING
A method of financing the acquisition of assets, notably equipment, vehicles, plant, etc. There are two forms of lease:

a) A finance lease involves payment by the lessee (the user) of the full cost of the asset together with a return on the finance provided by the lessor, usually payable over the anticipated life of the asset.
b) An operating lease involves the payment of a rental by a lessee for a period, which is normally less than the useful economic life of the asset.

LONG TERM BORROWING
Loans raised to finance capital spending which have still to be repaid.

MINIMUM REVENUE PROVSION
The Authority has a duty to set aside a prudent amount of money as a provision for financing the debt incurred to undertake capital expenditure.

MOVEMENT IN RESERVES STATEMENT
A reconciliation showing the movement in the year on the different reserves held by the Authority, analysed into 'usable' reserves (i.e. those that can be used to fund expenditure or reduce local taxation) and other reserves. It also shows how the balance of resources generated/ consumed in the year links in with statutory requirements for raising council tax.

NON CURRENT ASSETS
An asset which is not easily convertible to cash or not expected to become cash within the next year. Examples include fixed assets, leasehold improvements, long term investments and long term debtors.

NON-OPERATIONAL ASSETS
Assets held by the Authority but not directly used for the provision of services, e.g. assets surplus to requirements, commercial properties, and assets under construction.

PRECEPTS
The income which the Authority requires from the collection funds of the district councils.

PROVISION
An amount set aside for any liabilities or losses of uncertain timing or amount that have been incurred.

PUBLIC WORKS LOAN BOARD (PWLB)
A government body from which local authorities may raise long term loans, usually at advantageous interest rates.

REMUNERATION
All sums paid to an employee, including expenses, allowances, and redundancy payments chargeable to UK income tax, and the monetary value of any other benefits received other than in cash.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE
Capital expenditure incurred not resulting in an asset to the authority e.g. Grants to village halls.

REVENUE SUPPORT GRANT (RSG)
Grant paid by the Government in respect of general local authority expenditure.

RECHARGE
The transfer of costs from one service account to another.

REVENUE FUNDING OF CAPITAL
The financing of capital expenditure by a direct contribution from revenue.

REVENUE
Expenditure that the Authority incurs on the day to day running costs of its services including salaries and wages, running expenses of premises and vehicles as well as the annual payment of capital charges. The expenditure is financed from charges for services, government grants and income from Council Tax and National Non-Domestic Rates.

SERVICE LEVEL AGREEMENT (SLA)
An agreement between users and providers of support services which specifies the service to be provided and the charge to be made.

SHORT TERM ACCUMULATING COMPENSATED ABSENCES ADJUSTMENT ACCOUNT
Represents the reversal of the accrued charge to the Comprehensive Income and Expenditure Statement for outstanding annual leave, flexi leave and time off in lieu carried forward by employees required by regulations.

SPECIFIC GRANTS
Grants paid by the Government for a particular service.

TERMINATION BENEFITS
Employee benefits payable as a result of either: (a) the Authority's decision to terminate an employee's employment before the normal retirement date; or (b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

TRUST FUNDS
Funds administered by the Authority for such purposes as charities, prizes and specific projects.

USABLE RESERVE
An amount set aside for purposes falling outside the definition of a provision that an Authority can apply to its provision of services, either by incurring expenses or undertaking capital investment.

UNUSABLE RESERVE
An amount set aside for purposes falling outside the definition of a provision that an Authority is not able to utilise to provide services. These include reserves that hold unrealised gains and losses as well as adjustment accounts which hold income and expenditure recognised statutorily against the general fund balance on a different basis from that expected by accounting standards as adopted by the code.

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