Statement of Responsibilities for the Statement of Accounts

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required to:

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

These accounts were approved at a meeting of the Constitution Committee on 29th June 2007.

D R PARSONS
LEADER OF THE COUNTY COUNCIL AND CHAIRMAN OF THE CONSTITUTION COMMITTEE

DATE:

THE DIRECTOR OF RESOURCES' RESPONSIBILITIES

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

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

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

I certify that the Statement of Accounts has been prepared in accordance with proper practices and presents fairly the financial position of the County Council and its income and expenditure for the year ended 31st March 2007.

B ROBERTS
DIRECTOR OF RESOURCES

DATE:

Statement of Assurance on Corporate Governance and on the System of Internal Control 2006/07

1. SCOPE OF RESPONSIBILITY

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

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

2. CODE OF CORPORATE GOVERNANCE

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

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

3. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

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

The system of internal control has been in place at the Council for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts.

4. *THE INTERNAL CONTROL ENVIRONMENT*

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

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

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

A Corporate Governance Committee was established during 2005. This committee promotes and maintains high standards in relation to the operation of the Council's Code of Corporate Governance, including ensuring that an adequate risk management framework and associated control environment is in place and that the Authority's financial and non financial performance is properly monitored. Members of the Corporate Governance Committee also need to satisfy themselves that the County Council's Statement of Accounts and those relating to the Leicestershire Pension Fund have been prepared in accordance with best practice. Minutes of Corporate Governance Committee meetings are available on the County Council website at www.leics.gov.uk.

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

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

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

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

5. REVIEW OF EFFECTIVENESS

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

The Chief Executive has a duty to monitor and review the operation of the Constitution and the Monitoring Officer (County Solicitor) has a duty to report to Cabinet on matters which could be considered as unlawful or give rise to maladministration. As part of this process the Monitoring Officer ensures an annual assessment of the Authority's compliance with the Code of Corporate Governance is undertaken. During 2006/07, the Council's Head of Internal Audit carried out an audit of the corporate governance arrangements of the Authority as a whole and also in relation to a specific department to examine how these arrangements are implemented at department level. He concluded that substantial assurance could be given in relation to the corporate governance controls guarding against material risk. He did however identify some areas for improvement and made recommendations which are the subject of an action plan. The major recommendations have already been implemented and other improvements will be implemented during 2007/08.

The Chief Executive conducted the annual review of the Constitution during the year which led to the County Council at its meeting on 21 September 2006 agreeing a number of changes on the recommendation of the Constitution Committee. Changes were also made to the Constitution at the meetings of the Council on 24 May 2006 (to give effect to changes in the structure of scrutiny bodies), 6 December 2006 (in relation to the establishment of the Community Engagement Scrutiny Committee) and 21 March 2007 (in respect of employment matters, particularly the Officer Employment Procedure Rules).

Overview and Scrutiny Committees support the work of the Executive and the Council as a whole, by producing reports and recommendations, which advise the Executive and the Council on its policies, budget and service delivery. Decisions by the Cabinet are monitored by these committees who have the facility to examine them in detail. In the case of 'key decisions' they are able to 'call in' the decision which means that implementation is delayed to enable the Scrutiny Committee's views to be considered by the Cabinet.

The Corporate Governance Committee plays a key role in monitoring and reviewing the effectiveness of the system of internal control by promoting and maintaining high standards within the Authority in relation to the operation of the Council's Code of Governance. This includes monitoring the effectiveness of officer arrangements for ensuring an adequate internal control environment and combating fraud and corruption and ensuring that an adequate risk management framework and associated control environment is in place. The Corporate Governance Committee considers the findings of the review of the effectiveness of the system of internal control and approves the Statement on Internal Control. The Committee also considers the findings of the annual review into the effectiveness of the system of internal audit.

The effectiveness of the Council's internal controls is examined in detail through the work of the Internal Audit section of the Corporate Resources Department. The section's four-year strategic plan is based on an assessment process that focuses resources on higher risk areas and meets the professional standards required by CIPFA. From this an annual audit plan is produced. Audit findings are reported to the relevant Chief Officer and Service Manager, together with recommendations for improvement and agreed action plans. Checks are undertaken by Internal Audit to ensure agreed major recommendations have been implemented. Regular progress reports on the work of the Internal Audit section, including high importance recommendations from specific audits, are reported to the Corporate Governance Committee.

A review into the effectiveness of the system of internal audit was undertaken during 2006/07. This review considered performance in a range of areas in order to produce a self assessment of the quality of internal audit arrangements within the Council. Overall the review concluded that the Council's system of internal audit is effective. The Corporate Governance Committee considered the findings of this review and supported the review's conclusion.

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

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

Risk management is undertaken as part of the normal service planning and project management process. The Corporate Risk Management Group, through the Director of Corporate Resources, reports progress on mitigating the risks in the corporate risk register to the Corporate Governance Committee on a regular basis. Regular performance monitoring reports are also brought to the Cabinet showing progress against the Council's Annual Plan, the Local Area Agreement and the Medium Term Corporate Strategy.

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

As part of the Audit Commission's Comprehensive Performance Assessment, the Council achieved a 4 star overall performance in 2006. In addition, the Council was judged to be 'improving well' under the framework for assessing the 'Direction of Travel'.

6. SIGNIFICANT INTERNAL CONTROL ISSUES

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

The review of the system of internal control that has been undertaken in order to produce this statement has highlighted a number of minor internal controls issues that require attention and action is being taken to address these issues. There are no significant internal control issues to highlight for 2006/07. Future risks have been identified and action will be taken during 2007/08 to monitor and mitigate these risks.

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Authority, the Executive, the Corporate Governance Committee and Scrutiny Committee, and note the steps in place to ensure continuous improvement of the system of internal control.

John Sinnott
Chief Executive

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

Statement of Accounting Policies and Estimation Techniques

1. General principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2006 - A Statement of Recommended Practice (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). These accounts are maintained on an historical cost basis, subject to the revaluation and depreciation of certain categories of asset where values are based on current cost.

2. Provisions

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

Details of these provisions are shown in note 29.

Such provisions are charged to the appropriate service when created. Payments when eventually made are charged directly to that provision.

3. Reserves

The council sets aside resources for future policy purposes. These are created by appropriating amounts from the income and expenditure account after Net Operating Expenditure. When expenditure to be financed from a reserve is incurred this is charged to the appropriate service in that year. A withdrawal from the reserve is then made in order to avoid a net charge against council tax.

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 fall outside the definition of a provision. Details of these reserves are shown in note 31.

b) Capital

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

i) Fixed Asset Restatement Account

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

ii) Capital Financing Account

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

4. Fixed assets

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

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

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

- ***Intangible Assets*** cover the purchase of software licences and valuation is based on depreciated historical cost for all assets with an original cost in excess of £10,000.

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

  Valuation is carried out on a selective on-going basis such that all assets are revalued at least once every five years, and on completion of a capital scheme above £50,000. The valuation is carried out by various Chartered Surveyors in the Property Services Division of the Resources Department. Asset lifes have been reviewed and standardised, and over the next 4 year revaluation programme will be updated within the Asset Register.

  The current asset values used in the accounts are based on a certificate issued by the Council's Head of Property Services Division as at 1 April 2006. Additions since that date are either included in the accounts at their cost of acquisition (if above £50,000), or written off to the fixed asset restatement account if the actual expenditure does not increase the asset valuation.

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

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

- ***Non-operational assets*** cover investment properties, assets surplus to service requirements and assets under construction or refurbishment. Valuation of investment properties and assets surplus to requirements is based on open market value whilst valuation of assets under construction is based on actual payments made to date.

- ***Vehicles, plant, furniture and equipment;*** valuation is based on depreciated historical cost for all assets with an original cost in excess of £10,000, with the exception of Leicestershire Highways who occasionally capitalise an asset under £10,000.

5. *Leased Assets and Deferred Purchase Arrangements*

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

Rentals payable under operating leases are charged directly to income and expenditure account*.*

6. *Deferred charges*

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

7. *Basis of charges for capital*

Depreciation is chargeable to all services in the income and expenditure account, which utilise assets in the delivery of that service.

a) *Depreciation*

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

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

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

- ***Intangible Assets*** – up to 5 years
- ***Buildings*** - varies from asset to asset (the remaining useful economic life of each asset is reviewed at the same time as the revaluation is completed).
- ***Infrastructure*** - 40 years.
- ***Vehicles, plant, furniture and equipment*** - estimated useful life (averaging around 5 years).

No depreciation is charged in the year of acquisition, whereas a full year's depreciation is charged in the year of disposal, with the exception of Leicestershire Highways trading account, where a half a year's charge for depreciation for vehicles, plant and equipment is made in the year of acquisition.

b) *Interest Charges*

Under the 2006 CIPFA SORP, notional interest charges are no longer required. To compare 2006/7 to 2005/6 accounts, notional interest charges have been removed from the 2005/6 comparative figures in the Income and expenditure Account.

c) *Assets acquired under Finance Leases*

Service income and expenditure accounts are charged with actual rentals paid to leasing companies.

8. *Capital receipts*

Proceeds from the sale of assets (if over £10,000) are credited to the usable capital receipts reserve. All such receipts are available to the authority to enhance its programme of capital expenditure or to reduce external borrowing. Receipts so used are transferred to the capital financing account. The extent to which receipts have not been utilised at year end are reflected in the balance sheet as capital receipts unapplied.

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

9. *Basis of debtors/creditors included in the accounts*

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

a) Payments covering a period, e.g. fuel, telephone, rent, are brought into account in the year they become due and are not apportioned over the years to which they may relate.

b) Interest on staff car loans for the whole period of the loan is taken to the income and expenditure account when the loan is granted.

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

10. *Government grants*

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

The release of government grants to match depreciation is now credited to services, rather than to the asset management revenue account which is no longer in operation.

11. Stocks and work in progress

Stock accounts are normally only maintained for certain specified major items; other immaterial stocks, e.g. cleaning materials, books and stationery, are fully charged to income and expenditure in the year of purchase. Stocks are valued at cost price with allowance for obsolescent or slow moving stocks where material, with the exception of Leicestershire Highways and Catering trading accounts where stock is valued at average cost, and Central Print which use last price. Work in progress is shown at cost price.

12. Allocation of support service costs

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

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

13. Pension Schemes

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

- ***Teachers***

  This is an unfunded scheme administered by the Teachers Pensions Agency (TPA) on behalf of the Department for Education and Skills.

- ***Other employees***

  Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. This is a funded scheme with employees and employers paying contributions into the fund calculated at a level intended to balance liabilities with investment assets.

Note: In Leicestershire the Local Government Pension Scheme is administered by Leicestershire County Council and the Pension Fund accounts are included later in this booklet.

14. Pension costs

- ### Teachers

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

- ### Other Employees

As a defined benefit scheme accounting arrangements follow the requirements of FRS17 on Retirement Benefits, which requires the disclosure of the estimated pension liability in the balance sheet whilst charges to the income and expenditure account are based upon the cost of benefits earned by employees in that year as assessed by an actuary.

The liabilities of the scheme are calculated, by the actuary, Hymans Robertson, on the 'projected unit method' based on assumptions of mortality rates, employee turnover and estimates of future earnings. These liabilities are discounted, based upon high quality corporate bond interest rates pertaining at the end of each financial year. Changes in this interest rate can result in considerable fluctuation in the overall liability, year on year.

The components of the assets of the fund are shown at fair value, principally the market value of the investments.

The extent to which the costs of benefits earned differs to employers contributions paid in accordance with statutory regulations is reflected by a transfer to or from a Pension Reserve to ensure that these accounting arrangements do not impact on the levels of local taxation.

Since 2004/5 any new additional retirement benefits awarded to former employees within the local government pension scheme are subject to a one off payment from the income and expenditure account to the pension fund. Actual cash payments being charged to the pension fund. Payments of such benefits awarded prior to this date continue to be charged to the income and expenditure account.

The capitalised cost of early retirements for employees with unreduced benefits is charged to services over a period of up to 5 years.

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

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

Premiums and discounts arising from premature repayments of debt arising in 2006/07 are charged to the income and expenditure account over the lesser of the remaining period of the loan(s) being repaid or a maximum of 25 years. All outstanding premiums arising from earlier periods are being charged to income and expenditure account over 25 years.

16. VAT

VAT incorporated in the income and expenditure account is limited to irrecoverable sums.

17. Developer Contributions

Income received towards public sector infrastructure that is required to be spent within a certain period of time has now been reclassified in the balance sheet as creditors.

18. Waste Disposal- Landfill Allowance Trading Scheme (LATS)

Introduced in 2005/06 in order to provide financial incentives to reduce the amount of biodegradable municipal waste sent to landfill.

Annual allowances (in terms of tonnages) are allocated free of charge by the Department of Environment, Food, and Rural Affairs (DEFRA) to waste disposal authorities. If the actual waste tonnage exceeds that allowance the local authority either buys additional allowances from authorities with a surplus or incurs a penalty payable to DEFRA. Surplus allowances can be carried forward or sold to other waste disposal authorities.

The interim accounting arrangements that apply in 2006/07 are based upon the fact that the actual usage of landfill will not be known until after the completion of the annual accounts. As such they comprise the creation of an intangible current asset based on allowances issued valued at average market price, coupled with a provision based on the estimated usage at the same average market price. The income and expenditure account includes as grant income the above valuation of the allowance whilst the estimated usage of the allowances has been shown as expenditure. As allowances issued currently exceed usage the resultant surplus has been appropriated to a reserve.

Pension Fund

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 30,912 contributors to the Fund at 31st March 2007 and 15,414 of pensions were in payment.

2. Actuarial Position:

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

      The Council's actuary, Hymans Robertson and Co. completed the latest valuation, as at 31st March 2004. The change in contribution rates resulting from the actuarial valuation as at 31st March 2004 were effective from 1st April 2005. This review resulted in a requirement for the common contribution rate of employer's contributions to increase from 215% to 250% of an employee's contribution. This increase is being phased in over a period of up to four years commencing in 2005/06 and to be completed in the 2008/09 financial year, although the rate set as being payable in the final year (for those employers using a four year phasing period) will ultimately be superseded by the outcome of the 31st March 2007 valuation. This common rate for all employers is adjusted to reflect the individual circumstances of different employing bodies.

   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 2004 valuation revealed that the Fund's assets which at 31 March 2004 were valued at £1,391 million, were sufficient to meet approximately 87% of the liabilities accrued up to that date. Assets were valued at their market value.

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

Financial Assumptions	**Mar 2004 % p. a. Nominal**	**Mar 2004 % p. a. Real**
Minimum Risk rate of return	4.7%	1.8%
Investment Return:		
Equities	6.7%	3.8%
Bonds (50% gilt 50% corporates)	4.9%	2.0%
Discount Rate (75% equities, 25% bonds)	6.3%	3.4%
Pay increases	4.4%	1.5%
Price Inflation/Pension Increases	2.9%	0.0%

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

e) 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 a portfolio consisting of 75% equities and 25% bonds.

3. The average total employers rate during 2006/07 was approximately 236% (227% 2005/06) of the employees' rate. Thus for an employee paying 6% of earnings, the employer on average will pay 14.1% (13.62% 2005/06).

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

5. List of admitted and scheduled bodies:

The Pension Fund contributors include Blaby District Council, Charnwood Borough Council, Connexions Leicester Shire, De Montfort University, Harborough District Council, Hinckley & Bosworth Borough Council, Leicester City Council, Leicester, Leicestershire and Rutland Combined Fire Authority, Leicestershire Constabulary, Leicestershire County Council, Leicestershire & Rutland Probation Board, Loughborough University, Melton Borough Council, North West Leicestershire District Council, Oadby & Wigston Borough Council, Rutland County Council, Colleges of Further Education and Sixth Form Colleges consisting of Brooksby Melton College, Gateway Sixth Form College, Leicester College, Loughborough College, Regent College, Samworth Academy, South Leicestershire College, Stephenson College, Wyggeston QE1 College, Parish and Town Councils consisting of Anstey, Ashby, Braunstone, Broughton Astley, Countesthorpe, Glen Parva, Leicester Forest East, Lutterworth, Oakham, Ravenstone with Snibston, Shepshed, Sileby, Syston, Thurmaston, Whetstone other employers consisting of Apetito Ltd, Bradgate Park Trust, Collegia Care, Jeakins Wear, Leicester and County Mission for the Deaf, Leicester Money Advice, Leicestershire Promotions, Local Government East Midlands, National Youth Agency, Rushcliffe Care, SLM Community Leisure, Spire Homes, VISTA, and Voluntary Action Leicester.

Fund Account for the Year Ended 31 March 2006

2005/06 £000		Notes	2006/07 £000	
	Contributions and Benefits			
93,204	Contributions Receivable	3	104,541	
14,393	Transfers in	4	11,661	
107,597			116,202	
(59,908)	Benefits payable	5	(69,794)	
(16,509)	Leavers	6	(23,161)	
(997)	Administration Expenses	7	(1,197)	
(77,414)			(94,152)	
30,183	**Net additions from dealings with members**			**22,050**
	Returns on investments			
36,992	Investment income	8	50,972	
352,649	Change in market value of investments	9	128,487	
(4,029)	Investment management expenses	11	(6,421)	
385,612	**Net returns on investments**			**173,038**
415,795	**Net increase in the fund during the year**			**195,088**
	Net assets of the scheme			
1,568,844	At 1 April			1,984,639
1,984,639	**At 31 March**			**2,179,727**

Net Assets Statement for the year ended 31 March 2007

2005/06 £000		Notes	2006/07 £000
	Investments	9	
85,169	Fixed interest securities		128,980
788,413	Equities		1,223,453
14,846	Index-linked securities		65,025
923,317	Pooled investment vehicles		606,591
96,105	Properties	12	95,275
67,309	Cash deposits and equivalents		60,752
7,281	Other investment balances		(3,871)
1,982,440			**2,176,205**
2,199	Current Assets and Liabilities	13	3,522
1,984,639	**Net Assets of the Fund at 31 March**		**2,179,727**

Notes to the Accounts

1. Basis of Preparation

The financial statements have been prepared in accordance with the main recommendations of the Pension SORP (Financial Reports of Pension Schemes) and follow the 2006 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy.

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.

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 on the basis of the latest mid market price. Other quoted investments are valued on the basis of the mid-market value quoted on the relevant stock market.

Pooled investment vehicles are valued at the average of the bid and offer prices provided by the relevant fund managers, which reflect the market value of the underlying investments.

Private equity valuations are based on the latest available valuations of the managers (31st December 2006), adjusted for any cash and exchange rate movements in the final quarter.

The value of fixed interest investments in the Scheme's investment portfolio excludes interest earned but not paid over at the Scheme year end, which is included separately within accrued investment income.

Property investments are stated at open market value based on an independent valuation.

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 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.

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. 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.

Benefits payable

Under the rules of the Scheme, members receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement.

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.

3. *Contributions Receivable*

	2005/06 £000	2006/07 £000
Employers		
Normal	62,397	68,731
Voluntary Additional	0	676
Advanced payments for early retirements	2,636	5,424
Members		
Normal	27,522	29,123
Additional voluntary contributions	649	587
Total	**93,204**	**104,541**

Additional payments for early retirements are paid by employers to reimburse the Pension Fund for the cost to the Fund of employees who are allowed to retire before their normal retirement age. Purchase of additional benefits by members allows extra service to be credited on top of any service earned via employment.

4. *Transfers In*

	2005/06 £000	2006/07 £000
Individual transfers in from other schemes	14,393	11,661
Total	**14,393**	**11,661**

5. *Benefits Payable*

	2005/06 £000	2006/07 £000
Pensions	48,646	51,968
Lump sum retirement benefit	9,542	16,426
Lump sum death benefit	1,722	1,402
Net Benefits recharged	(2)	(2)
Total	**59,908**	**69,794**

It is not possible to split benefits payable between the administering authority, scheduled and admitted bodies as is required by the Statement of Recommended Practice.

6. *Payments to and on account of leavers*

	2005/06 £000	2006/07 £000
Refunds to members leaving scheme	182	61
Payments for members joining state scheme	75	(6)
Individual transfers to other schemes	16,252	11,189
Group transfers to other schemes	0	11,917
Total	**16,509**	**23,161**

7. *Administration Expenses*

	2005/06 £000	2006/07 £000
Administration and processing	866	1,005
Actuarial fees	14	64
Legal and other professional fees	45	47
Computer system costs	72	81
Total	**997**	**1,197**

8. *Investment Income*

	2005/06 £000	2006/07 £000
Income from fixed interest securities	3,901	5,699
Dividends from equities	20,232	32,141
Income from index-linked securities	343	1,180
Income from pooled investment vehicles	3,387	2,070
Net rents from properties	6,443	6,241
Interest on cash or cash equivalents	2,673	3,370
Net Currency Profit / (Loss)	(85)	68
Securities Lending Commission	10	161
Underwriting Commission	12	14
Insurance Commission	28	22
Commission Recapture	48	6
Total	**36,992**	**50,972**

9. *Investments*

	Value at 1 April 2006 £000	Purchases at Cost £000	Sales Proceeds £000	Change In Market Value £000	Value at 31 March 2007 £000
Fixed interest securities	85,169	321,403	(268,933)	(8,659)	128,980
Equities	788,413	912,461	(532,216)	54,795	1,223,453
Index-linked securities	14,846	165,778	(116,159)	560	65,025
Pooled investment vehicles	923,317	153,849	(499,837)	29,262	606,591
Properties	96,105	148	(7,813)	6,835	95,275
Cash & cash equivalents	67,309	0	(52,251)	45,694	60,752
Other investment balances	7,281	0	(11,152)	0	(3,871)
Total	**1,982,440**	**1,553,639**	**(1,488,361)**	**128,487**	**2,176,205**

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.

10. *Analysis of Investments*

	2005/06 £000	2006/07 £000
Fixed interest securities		
UK public sector quoted	32,985	51,772
Overseas public sector	52,184	77,208
	85,169	**128,980**
Equities		
UK quoted	524,299	764,023
Overseas quoted	264,114	459,430
	788,413	**1,223,453**
Index Linked Securities		
UK quoted	**14,846**	**65,025**
Unitised Funds		
Property Funds	80,360	98,178
Unit Trust – Other	842,957	508,413
	923,317	**606,591**
Properties		
UK	**96,105**	**95,275**
Cash & Cash Equivalents		
Sterling Denominated	**67,309**	**60,752**
Other Investment Balances	**7,281**	**(3,871)**
Total Investments	**1,982,440**	**2,176,205**

11. *Investment Management Expenses*

	2005/06 £000	2006/07 £000
Administration, management and custody	3,978	6,319
Performance measurement services	8	10
Other advisory fees	43	92
Total	**4,029**	**6,421**

12. *Property Investments*

	31 March 2006 £000	31 March 2007 £000
Freehold	76,675	74,630
Long Leasehold (over 50 years unexpired)	9,470	10,260
Short Leasehold (under 50 years unexpired)	9,960	10,385
Total	**96,105**	**95,275**

All properties, except the Fund's farm investment, were valued on an open market basis by Nigel Holroyd of Colliers Capital UK Limited at 31st March 2007. The Fund's farm was valued on an open market basis by Andrew Coombe of Leicestershire County Council. Both valuers are Associates of the Royal Institute of Chartered Surveyors.

13. *Current Assets & Liabilities*

	2005/06 £000	2006/07 £000
Contributions due from employers	4,528	4,086
Cash Balances	66	118
Other Debtors	112	403
Due from/(to) Leicestershire County Council	(926)	1,186
Fund Management Fees Outstanding	(986)	(1,830)
Fund Management Fee rebate outstanding	0	0
Other Creditors	(595)	(441)
Total	**2,199**	**3,522**

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 31st March 2006 £000	At 31st March 2007 £000
Investment Manager		
UBS Global Asset Management	644,535	723,634
Barclays Global Investors	404,856	8
Capital International	364,800	381,117
Standard Life Investments	217,137	323,009
Goldman Sachs	0	298,706
Morley Fund Management	170,738	240,915
Colliers Capital UK	117,750	134,821
Adams Street Partners	31,741	49,960
Catapult Venture Managers	784	1,399
Internally Managed and Currency Managers	30,099	22,636
Total	**1,982,440**	**2,176,205**

15. *Custody of Assets*

All of the Fund's assets are held by external custodians and are therefore not at risk from the financial failure of any of the Fund's investment managers. The custodian used is dependent on the type of asset and the portfolio to which the asset belongs.

16. *Related Party Transactions*

From the information currently available there were no material transactions with related parties in 2006/07 that require disclosure under FRS8.

17. *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 covering the value of the benefits gained whilst they were a scheme member. 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 £853,000, 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.

18. *Contractual Commitments*

At 31st March 2007, the Fund had the following contractual commitments:-

a) Undrawn commitments totalling $115,299,100 equal to £58,785,581 to fifteen different pooled private equity funds managed by Adams Street Partners (31st March 2006 £68,948,200 to twelve different funds).

b) Undrawn commitment of £5,484,000 to two private equity funds managed by Catapult Venture Managers (31st March 2006 £3,216,000 to the fund).

19. *Securities lending*

Following a change of custodian, the Fund ceased securities lending and had no stock on loan at 31st March 2006. Lending recommenced in April 2006 and at 31st March 2007 the value of securities on loan was £76.7m, backed by collateral valued at £85.3m.

20. *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.

21. *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 2006/07 or 2005/06.

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

Pension Increase
All pensions 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.

Statement of Investment Principles

A statement of investment principles has been agreed by the Pension Fund Management Board. A copy is available on request from the investments section of the County Council at the following address: Room 139, Corporate Resources Department, County Hall, Glenfield, Leicester, LE3 8RB.