

Statement of Responsibilities for the Statement of Accounts

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required to:

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

These accounts were approved at a meeting of the Constitution Committee on 30th June 2008.

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

DATE: 30th June 2008

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 2008.

**B ROBERTS
DIRECTOR OF CORPORATE RESOURCES**

DATE: 30th June 2008

Summary Annual Governance Statement 2007/08

The full Annual Governance Statement is available on the County Council's website. A summarised version is set out below.

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.

Leicestershire County Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

3. THE GOVERNANCE FRAMEWORK

There is a comprehensive Governance Framework which includes:

- The Corporate Governance Committee that promotes and maintains high standards in relation to the operation of the Council's Code of Corporate Governance.
- The Medium Term Corporate Strategy and the new Sustainable Community Strategy which is available to view at www.leicestershiretogether.org
- The Councils Annual Plan, the Local Area Agreement, the Medium Term Financial Strategy and the Multi Area Agreement.
- The Performance Management Framework to ensure quality of service and efficient use of resources.
- The County Council's Constitution which details the roles, responsibilities and rules under which the Council operates.
- The People Strategy which has been established to promote an organisational culture that delivers excellent services.
- The Standards Committee
- Partnership Agreements.

4. REVIEW OF EFFECTIVENESS

The Council has reviewed the effectiveness of the Governance Framework by various methods including;

- Annual review of the system of internal control
- Review of work completed by the Council's external auditors
- An annual assessment of the Authority's compliance with the Code of Corporate Governance
- Annual review of the Constitution
- Recommendations from Overview, Scrutiny and Corporate Governance Committees.
- Reviews through the work of Internal Audit.
- Recommendations from the Corporate Risk Management Group.
- Reports produced by independent review bodies and inspectorates.

5. GOVERNANCE ISSUES

The reviews of effectiveness undertaken by both Internal and External Audit have advised that the Council's overall financial management and corporate governance arrangements are sound. The review of the Council's governance arrangements has highlighted a number of minor governance issues that require attention and action is being taken to address these issues.

An area identified for improvement arising from the CPA Corporate Assessment was the need for the Council "to ensure that its excellent relationships with most stakeholders are also replicated with its district councils. Although operational cooperation between the Council and the districts exists, not all districts are satisfied with relationships at a strategic level". As part of the Corporate Improvement Plan the Council will work with the Districts and Leicester City Council to develop a capacity for governance and explore a more collaborative style of working together to agree and implement priorities in the Sustainable Community Strategy through a leadership group.

The current complaints/comments procedure is available on the Council's website but it has been noted there is some inconsistency on complaint handling and reporting across the Council. As part of the Strategic Change Management, 'Customer First' project, a thorough review is in place with the intention of implementing a new process of complaint handling.

During the preparation of the Corporate Assurance Statement several Human Resource issues were identified. The primary concerns questioned the effectiveness of the current induction process and results stating that not all employees had received a performance development review. In accordance with the new People Strategy under the principle of 'Development of the workforce, skills and capacity' there will be a review of all the issues addressed. It has also been noted that arrangements are in place for all members to be interviewed by an external training consultant on an annual basis to identify training needs. However not all members take advantage of this arrangement. Plans are being developed to try and improve Member take-up of training, especially following the May 2009 elections.

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

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 2007 - 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 27.

Such provisions are charged to the appropriate service when created. Payments when eventually made are charged directly to that provision. The level of Provisions are reviewed each year and any liabilities that are excessive or no longer required are returned to the relevant service account.

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 29.

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) Revaluation Reserve

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

ii) 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.

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 lives have been reviewed and standardised, and over the next 3 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 2007. Additions since that date are either included in the accounts at their cost of acquisition (if above £50,000), or recognised in the Income and Expenditure 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.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to service revenue account.

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

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to this value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Upon disposal of a fixed 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.

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) Assets acquired under Finance Leases

Service income and expenditure accounts are charged with actual rentals paid to leasing companies rather than the SORP request to charge depreciation and interest.

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 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 unapplied.

Any gains/losses on disposal of assets are taken to the Income and Expenditure account. Statutory regulations require a reversal of this entry via the Statement of Movement on the General County Fund balance to ensure no impact on the General Fund Balance.

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 have 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 the Income and Expenditure 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.

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. Financial Instruments

a) Liabilities

Borrowings at fixed interest rates from either the PWLB or other financial institutions are recorded 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 Income and Expenditure account calculated at the effective rate of interest (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 Statement of Movement in the County Fund balance to the Financial Instruments adjustment account.

Any accrued interest at the end of a year is added to the principal sum outstanding.

b) Assets

Loans and Receivables

- Investments at fixed interest rates with a fixed maturity date are recorded at amortised cost which corresponds to fair value.

Fair Value through Income & Expenditure account

- 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 the 31st March with similar contractual terms will show a gain or loss that is taken to the Income and Expenditure account.

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 Income & Expenditure account 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 Statement of Movement in the County Fund balance to the Financial Instruments adjustment account.
- Premiums and discounts arising from premature repayments of debt arising since 1st April 2007 are charged to the Statement of Movement on the County Fund Balance 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.

14. Pension Schemes

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

□ **Teachers**

This is an unfunded scheme administered by the Teachers Pensions Agency (TPA) on behalf of the Department for Children, Schools and Families.

□ **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.

15. Pension costs

□ **Teachers**

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

□ **Other Employees**

As a defined benefit scheme accounting arrangements follow the requirements of FRS17 on Retirement Benefits, which requires the disclosure of the estimated pension liability 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 County Fund on a regular monthly basis.

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 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 if subject to a positive valuation is appropriated to a reserve.

19. 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 authorities accounts, therefore these loans have not been revalued on a fair value basis in accordance with the CIPFA SORP.

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 31,782 contributors to the Fund at 31st March 2008 and 16,237 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 2007. The change in contribution rates resulting from the actuarial valuation as at 31st March 2007 were effective from 1st April 2008. This review resulted in a requirement for the common contribution rate of employer's contributions to increase from 250% to 255% of an employee's contribution. 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 2007 valuation revealed that the Fund's assets which at 31 March 2007 were valued at £2,182 million, were sufficient to meet approximately 93% 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 2007 % p. a. Nominal	Mar 2007 % p. a. Real
Minimum risk rate of return	4.5%	1.3%
Finding basis discount rate	6.1%	2.9%
Pay increases	4.7%	1.5%
Price inflation/pension increases	3.2%	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 line with its long term investment strategy.
3. The average total employers rate during 2007/08 was approximately 245% (236% 2006/07) of the employees' rate. Thus for an employee paying 6% of earnings, the employer on average will pay 14.7% (14.1% 2006/07).
 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, Ashby Woulds, Braunstone, Broughton Astley, Countesthorpe, Glen Parva, Leicester Forest East, Lutterworth, Market Bosworth, Oakham, Ravenstone with Snibston, Shepshed, Sileby, Syston, Thurmaston, Whetstone.

Other employers consist of Apetito Ltd, Bradgate Park Trust, Charnwood Neighbourhood Housing, Collegia Care, Jeakins Wear, Leicester and County Mission for the Deaf, Leicester Money Advice, Fire Regional Control Centre, Leicestershire Promotions, Local Government East Midlands, National Youth Agency, Rushcliffe Care, Seven Locks Housing, SLM Community Leisure, Spire Homes, VISTA, and Voluntary Action Leicester.

Fund Account for the Year Ended 31 March 2008

2006/07 £m		Notes	2007/08 £m	
	Contributions and Benefits			
104.5	Contributions Receivable	3	111.1	
11.7	Transfers in	4	12.1	
116.2			123.2	
(69.8)	Benefits payable	5	(78.6)	
(23.1)	Leavers	6	(11.0)	
(1.2)	Administration Expenses	7	(1.4)	
(94.1)			(91)	
22.1	Net additions from dealings with members			32.2
	Returns on investments			
51.0	Investment income	8	52.3	
128.4	Change in market value of investments	9	(177.4)	
(6.4)	Investment management expenses	11	(7.4)	
173.0	Net returns on investments			(132.5)
195.1	Net increase in the fund during the year			(100.3)
1,984.6	Net assets of the scheme At 1 April			2,179.7
2,179.7	At 31 March			2,079.4

Net Assets Statement for the year ended 31 March 2008

2006/07 £m		Notes	2007/08 £m
	Investments	9	
129.0	Fixed interest securities		0
1,223.4	Equities		887.0
65.0	Index-linked securities		16.4
606.6	Pooled investment vehicles		1,028.8
95.3	Properties	12	79.3
60.8	Cash deposits and equivalents		56.6
(3.9)	Other investment balances		10.2
2,176.2			2,078.3
3.5	Current Assets and Liabilities	13	1.1
2,179.7	Net Assets of the Fund at 31 March		2,079.4

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 requirements of 2007 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 2007), 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

	2006/07 £m	2007/08 £m
Employers		
Normal	68.7	75.6
Voluntary Additional	0.7	0.1
Advanced payments for early retirements	5.4	3.9
Members		
Normal	29.1	30.8
Additional voluntary contributions	0.6	0.7
Total	104.5	111.1

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

	2006/07 £m	2007/08 £m
Individual transfers in from other schemes	11.7	12.1
Total	11.7	12.1

5. Benefits Payable

	2006/07 £m	2007/08 £m
Pensions	52.0	56.5
Lump sum retirement benefit	16.4	20.2
Lump sum death benefit	1.4	1.9
Net Benefits recharged	(0)	(0)
Total	69.8	78.6

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*

	2006/07 £m	2007/08 £m
Refunds to members leaving scheme	0.1	0
Payments for members joining state scheme	(0)	(0)
Individual transfers to other schemes	11.2	11.0
Group transfers to other schemes	11.9	0
Total	23.2	11.0

7. *Administration Expenses*

	2006/07 £m	2007/08 £m
Administration and processing	1.0	1.2
Actuarial fees	0.1	0
Legal and other professional fees	0	0.1
Computer system costs	0.1	0.1
Total	1.2	1.4

8. *Investment Income*

	2006/07 £000	2007/08 £000
Income from fixed interest securities	5.7	3.8
Dividends from equities	32.1	34.7
Income from index-linked securities	1.2	1.4
Income from pooled investment vehicles	2.1	2.2
Net rents from properties	6.2	6.6
Interest on cash or cash equivalents	3.4	3.3
Net Currency Profit / (Loss)	0.1	0
Securities Lending Commission	0.2	0.3
Underwriting Commission	0	0
Insurance Commission	0	0
Commission Recapture	0	0
Total	51.0	52.3

9. Investments

	Value at 1 April 2007 £m	Purchases at Cost £m	Sales Proceeds £m	Change In Market Value £m	Value at 31 March 2008 £m
Fixed interest securities	129.0	284.9	411.8	(2.1)	0
Equities	1,223.5	868.7	1,120.7	(84.5)	887.0
Index-linked securities	65.0	156.1	215.1	10.5	16.4
Pooled investment vehicles	606.6	770.1	304.3	(43.6)	1,028.8
Properties	95.3	0	0	(16.0)	79.3
Cash & cash equivalents	60.7	37.6	0	(41.7)	56.6
Other investment balances	(3.9)	14.0	0	0	10.2
Total	2,176.2	2,131.4	2,051.9	(177.4)	2,078.3

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

	2006/07 £m	2007/08 £m
Fixed interest securities		
UK public sector quoted	51.8	0
Overseas public sector	77.2	0
	129.0	0
Equities		
UK quoted	764.0	448.5
Overseas quoted	459.4	438.5
	1,223.4	887.0
Index Linked Securities		
UK quoted	65.0	16.4
Unitised Funds		
Property Funds	98.2	160.5
Unit Trust – Other	508.4	868.3
	606.6	1,028.8
Properties		
UK	95.3	79.3
Cash & Cash Equivalents		
Sterling Denominated	60.8	56.6
Other Investment Balances	(3.9)	10.2
Total Investments	2,176.2	2,078.3

11. Investment Management Expenses

	2006/07 £m	2007/08 £m
Administration, management and custody	6.3	7.3
Performance measurement services	0	0
Other advisory fees	0.1	0.1
Total	6.4	7.4

12. Property Investments

	31 March 2007 £m	31 March 2008 £m
Freehold	74.6	59.7
Long Leasehold (over 50 years unexpired)	10.3	9.5
Short Leasehold (under 50 years unexpired)	10.4	10.1
Total	95.3	79.3

All properties, except the Fund's farm investment, were valued on an open market basis by James Dunn of Knight Frank LLP at 31st March 2008. The Fund's farm was valued on an open market basis by James Foreman of Leicestershire County Council. Both valuers are Associates of the Royal Institute of Chartered Surveyors.

13. Current Assets & Liabilities

	2006/07 £m	2007/08 £m
Contributions due from employers	4.1	4.9
Cash Balances	0.1	0.1
Other Debtors	0.4	0.1
Due from/(to) Leicestershire County Council	1.2	(1.9)
Fund Management Fees Outstanding	(1.8)	(1.5)
Other Creditors	(0.5)	(0.6)
Total	3.5	1.1

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 st March 2007 £m	At 31 st March 2008 £m
Investment Manager		
UBS Global Asset Management	723.6	114.7
Capital International	381.1	361.8
Standard Life Investments	323.0	295.2
Goldman Sachs	298.7	277.0
Morley Fund Management	240.9	224.3
Legal & General	0	457.7
Fauchier Partners	0	123.8
Colliers Capital UK	134.8	113.6
Adams Street Partners	50.0	66.7
Catapult Venture Managers	1.4	2.0
Internally Managed and Currency Managers	22.7	41.5
Total	2,176.2	2,078.3

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 2007/08 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 £823,000, 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 2008, the Fund had the following contractual commitments:-

- a) Undrawn commitments totalling \$126,834,550 (£63,816,126) to eighteen different pooled private equity funds managed by Adams Street Partners (31st March 2007 £58,785,581 to fifteen different funds).
- b) Undrawn commitment of £4,654,000 to two private equity funds managed by Catapult Venture Managers (31st March 2007 £5,484,000 to the fund).

19. Securities lending

At 31st March 2008 the value of securities on loan was £70.0m, backed by collateral valued at £82.4m.

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 2007/08 or 2006/07.

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.