

# **Statement of Responsibilities for the Statement of Accounts**

## **THE AUTHORITY'S RESPONSIBILITIES**

The Authority is required to:

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

These accounts were approved at a meeting of the Constitution Committee on 28<sup>th</sup> June 2010.

**D R PARSONS CBE  
LEADER OF THE COUNTY COUNCIL AND CHAIRMAN OF THE CONSTITUTION COMMITTEE  
28<sup>th</sup> June 2010**

## **THE DIRECTOR OF CORPORATE RESOURCES' RESPONSIBILITIES**

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

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

- selected suitable accounting policies and then applied them consistently,
- made judgements and estimates that were reasonable and prudent,
- complied with the Local Authority SORP,
- 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 a true and fair view of the financial position of the County Council and its income and expenditure for the year ended 31<sup>st</sup> March 2010.

**B D ROBERTS  
DIRECTOR OF CORPORATE RESOURCES  
28<sup>th</sup> June 2010**

# Annual Governance Statement 2009/10

## 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 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 responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

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*. A copy of the code is on our website-Code of Corporate Governance and this statement explains how Leicestershire County Council has complied with the code.

## 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.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness

The governance framework has been in place at Leicestershire County Council for the year ended 31 March 2010 and up to the date of approval of the annual report and statement of accounts.

### 3. THE GOVERNANCE FRAMEWORK

Leicestershire County Council primarily promotes its purpose and vision through the Sustainable Community Strategy. The Sustainable Community Strategy has been developed in consultation with Leicestershire Together, which is the Local Strategic Partnership for Leicestershire, with the Local Area Agreement being the key delivery framework for the strategy. The Sustainable Community Strategy is available to view at: [www.leicestershiretogether.org](http://www.leicestershiretogether.org).

Since the election in May 2009, the new Council has been reviewing its improvement priorities and this has led to the publication of a new Medium Term Delivery Plan (MTDP) for the Council to 2013. In the interim, the Council's priorities have related to implementation of the Local Area Agreement 2 priority outcomes and existing departmental and service strategies as well as the draft MTDP. The County Council also develops and promotes its purpose and vision through the Local Area Agreement 2 (LAA, the Multi Area Agreement (MAA), the Medium Term Financial Strategy (MTFS) and annual service plans). The impact of the Council's vision on the Council's governance arrangements is considered through the Code of Corporate Governance and also through the preparation of the Corporate Assurance Statement.

The County Council has an established Performance Management Framework and this framework requires each Department to produce annual service plans, setting out their objectives and targets in relation to the Council's policy priorities. These plans form the basis of the Council's Annual Report, which summarises progress against targets and sets out proposed improvements in performance and service standards. Progress on the delivery of the Sustainable Community Strategy is available on the Leicestershire Together Website. Performance progress reports and improvement plans are also presented to a new Budget & Performance Monitoring Scrutiny Panel which receives quarterly reports on the revenue budget, capital programme and performance reports in relation to targets and commitments contained in the LAA2, MAA and MTDP. Other performance information is made available to the public through the Annual Statement of Accounts, Leicestershire Matters, the Council's website and the Annual Performance Report.

To ensure effective leadership throughout the authority, members and officers work together to deliver a common purpose with clearly defined functions and roles. The County Council's Constitution includes details of the role and responsibilities of the Executive, Committees, the full Council and Chief Officers and the rules under which they operate. The Constitution is subject to annual review and is revised as necessary during the intervening period. The Council's political structure and roles and responsibilities of Cabinet members are detailed on the Council's website and the Leader of the Council sets specific job descriptions and targets for Cabinet Lead and Support Members. 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 success of County Council services relies substantially on the contribution of staff to the planning, development and delivery of services. The County Council recognises that the value of staff contributions will be enhanced through: clear communication of the Council's expectations; nurturing and developing staff skills and abilities; encouraging, celebrating and rewarding achievements; providing a safe, healthy, supportive and inclusive working environment and by treating all people fairly and with respect. The Council's People Strategy has been developed to support delivery of the Sustainable Community Strategy and better manage the Council's workforce. Delivering the People Strategy has enabled the County

Council to enhance value for money and further improve services to communities in Leicestershire. The County Council achieved Level 3 of the Equality Standard for Local Government and this achievement shows that there is a strong commitment to equalities across the Authority. The Council has also won many awards including the Local Government Chronicle 'Council of the Year 2009' and The Times 'Best Large Council to work for', as well as being placed 32<sup>nd</sup> in Stonewall's top 100 employers, which makes Leicestershire County Council the fifth best in the country. The particular skills and talents that Council staff use every day will make a difference to people in Leicestershire, whether they work directly with people in the community, managing local facilities or providing support services to colleagues involved in such activities.

There is a cross-party Member Learning and Development Working Party which oversees the implementation of a Member Learning and Development Strategy. This covers the induction of members, the identification of development needs of members through annual reviews and creation of personal development plans. As part of a national initiative, the County Council worked with the Local Government Leadership Centre to make sure it had the best possible arrangements in place for the induction of new members' following the Council elections in June 2009, together with a modern ongoing programme of learning and development.

The County Council's Learning & Development Structure has been reviewed in 2009 and a new single co-located service has been created that is modern, efficient and closely aligned to the business. Within this strategy, every employee receives a six monthly and annual personal development review. The Council has implemented the 'Leicestershire Manager' which sets out the expectations of all managers and which is underpinned by a competency framework.

The importance of a strong ethical framework and culture has always been recognised by the County Council. The County Council first adopted a Code of Conduct for Members in March 2002 which was revised in September 2007 in accordance with statutory requirements. Arrangements are made for all members to sign a declaration on acceptance of office which includes an undertaking to follow the Code of Conduct when they took up office following the Council elections in June 2009. A determination hearing in September 2009 led to the member concerned being suspended for one month and their allowance being suspended for that period. The outcome of the case was notified to members and officers of the County Council and to members of the public through a press release. This was the first suspension of an elected member at the County Council and served to underline the Council's commitment to upholding high standards of behaviour.

The standard of conduct expected from Council employees is set out in an Employee Code of Conduct and the County Council's Organisational Values underpin all aspects of the Code and describe the attitudes and attributes expected of all Leicestershire employees. The values embedded in the Code of Conduct define the standards of behaviour for all members and staff. The system of internal financial control is based on a framework of regular management information, financial procedure rules and standard financial instructions, contract procedure rules, administration arrangements (including segregation of duties), management supervision and a system of delegation and accountability. The Corporate Governance and Standards Committees both have a role in ensuring that systems and processes within the Council conform to ethical standards.

The Council's scheme of members' allowances is kept under regular review by an Independent Remuneration Panel and has always adopted the recommendations put forward by this Panel about the number and level of allowances payable by the Council. Reports of this Panel are public and the County Council publicises both recommendations of the Panel and the Council's subsequent decision in accordance with Members' Allowance Regulations which included details of allowances received by every member to be published. Declarations of personal and prejudicial interests are recorded in minutes of meetings which are available on the Council's website, whilst the member's Register of Interests including gifts and hospitality is made available for public inspection.

The Council actively recognises the necessity of compliance with relevant laws, regulations, internal policies and procedures. Democratic Services staff monitor reports to ensure propriety of decision making and that legal advice is included where necessary and appropriate. Lawyers are involved in policy development, major projects, programme boards and Scrutiny processes. The County Council has an embedded 'Whistleblowing' procedure which is also publicised as part of the Council's ethical framework. By encouraging all employees to use the Whistleblowing procedure, the County Council has put into place a further measure to remind everyone of the importance of good ethical behaviour and employees are reminded of this policy through regular alerts via the Council's intranet. A Contractors' Whistleblowing Policy is included with Procurement documentation.

The Sustainable Community Strategy identifies the key issues that the Leicestershire Local Strategic Partnership as a whole and its constituent members need to consider and the actions that will be undertaken to address them. The Council has ensured that clear channels of communication are in place with all sections of the community and other stakeholders through: Community Forums, the Leicestershire Together Forum, Community Cohesion, Leicestershire Together Engagement Framework, Parish Plans, Consultation Standards, Leicestershire Matters, Satisfaction Surveys and road shows presented by the Corporate Management Team. The 'Have Your Say' section of the Council's website contains information regarding the various ways in which the Council consults stakeholders.

The Council has an ambitious programme to manage change. An assessment of the current challenges facing the Council together with best practice design principles have been used to define a new model for the organisation which is being delivered through the transformation programme. Reviews of management structures and processes are a key part of this and recent changes have included a reduction in the number of departments with the disaggregation of the Community Services Department. There has been a formal transfer of services to existing departments including the transfer of risks associated with service delivery.

Leicestershire Together is the Local Strategic Partnership for Leicestershire and is underpinned by a Partnership Agreement and includes a section on compliance with the Code of Governance. The County Council has published guidance on assessing partnerships which encompasses a governance checklist, which covers basic requirements needed in partnership working to ensure risks are managed and adequate governance arrangements are in place. It is the Council's aim to ensure that all future partnerships and agreements continue to include a section on compliance with the Code of Governance.

The County Council is working with other public agencies across Leicester and Leicestershire to look at better and more efficient ways of providing public services. Total Place is an initiative sponsored by the Treasury and the Department of Communities and Local Government, focused on 'identifying service improvement and cashable savings through better collaborative working across partners within a place'. In recognition of the County Council's good track record of delivering results through effective leadership and strong partnership working, Leicester and Leicestershire has been selected as one of just thirteen areas across the country to take part in a national pilot.

#### 4. REVIEW OF EFFECTIVENESS

The County Council has an effective system of internal control which includes:

- Providing effective internal audit
- Effective risk management arrangements
- Overview & Scrutiny Committees
- An established Corporate Governance Committee
- A Code of Corporate Governance
- Standing Financial Instructions and Contract Procedure Rules
- Scheme of delegation
- Ensuring compliance with relevant laws and regulations

A Corporate Governance Committee was established in 2005. This Committee promotes and maintains high standards in relation to the operation of the Council's Code of Corporate Governance. The Committee also ensures that the County Council operates within the law, in accordance with the Council's internal procedures and follows the framework and guidance issued by CIPFA. The Committee is also responsible for monitoring and maintaining the risk management framework and the associated control environment and also ensuring that the Council's financial and non financial performance is properly monitored. The Committee receives reports on a regular basis covering issues such as: Risk Management and the Corporate Risk Register; Internal Audit and Governance Arrangements; The Annual Governance Statement; External Audit and Inspection Plans; Results of external audit work; The effectiveness of Systems of Internal Audit; Progress reports on Internal Audit work; Anti fraud and corruption initiatives and Treasury Management.

The Corporate Management Team receives quarterly reports on the County Council's Organisational Governance Framework. The reports include information relating to: audit and risk management; procurement; standards; information issues; freedom of information; employee related information and complaints. The reports provide greater visibility of particular aspects of governance, provide Chief Officers with an overview of the health of the Council and bring issues together in a way that highlights areas which might need further investigation.

Leicestershire County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by 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.

The Chief Executive conducted the annual review of the Constitution during the year which led to the County Council at its meeting in September 2009 agreeing a number of changes on the recommendation of the Constitution Committee. 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. Following elections in May 2009, the scrutiny structure was reviewed, leading to a reduction in the number of Standing Committees to allow more resources to be directed towards Scrutiny Review Panels. Small, time limited Scrutiny Panels have been identified as a more effective way of carrying out detailed scrutiny of particular issues.

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; combating fraud and corruption; ensuring that an adequate risk management framework and associated control environment is in place and considering the Annual Governance Statement. 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 Internal Audit. The section's strategic plan is based on an assessment process that focuses resources on higher risk areas and meets the professional standards required by CIPFA and 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 2009/10 and 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.

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 Area Assessment, the County Council was judged to be 'performing excellently', the only authority in the Midlands to be given the top rating. In addition, the Council achieved 3 out of 4 for the 'Use of Resources' element of the assessment.

## 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 during 2009/10 were sound. However, details of the governance issue that requires attention is set out below, including the positive steps to address it.

The inquest into the tragic deaths of two Barwell residents in 2007 took place in September 2009. The deaths had been the subject of a Serious Case Review in 2008 coordinated by the Safeguarding Adults Board and recommendations acted on. After the inquest, the Leicester, Leicestershire and Rutland Community Safety Programme Board (CSPB) set up a Task and Finish Group to revisit the Serious Case Review recommendations, to address any further lessons that could be learned from the inquest and to ensure that appropriate arrangements are in place across the whole sub region. At local level, partner agencies have developed and implemented a Recovery Strategy to assist the Barwell community to recover from these traumatic events. The County Council has actively participated in the Serious Case Review, the CSPB Task and Finish Group and the Barwell Recovery Strategy. The case required changes to the way key agencies operate and the main recommendations related to the Police and Hinckley & Bosworth Borough Council. There were, however, some lessons learnt by the County Council and the County Council is committed to ensuring a pro active multi agency response to cases such as this.

We propose over the coming year to take steps to address the outstanding issues to further enhance our governance arrangements.

**John Sinnott**  
**Chief Executive**

**David Parsons CBE**  
**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 2009 - 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 Statement of Movement in the General County Fund Balance. 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 1<sup>st</sup> 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 £20,000.
- **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 £100,000. In addition the top twenty valued assets are now valued each year. The valuation is carried out by various Chartered Surveyors in the Property Services Division of the Corporate Resources Department. Asset lives have been reviewed and standardised, and over the next two 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 County Council's Head of Property Services Division as at 1 April 2009. Additions since that date are included in the accounts at their cost of acquisition. The addition is then reviewed, and if the actual capital expenditure does not increase the asset valuation or if the expenditure is less than the council's £100,000 capital de-minimus level then this value will be recognised in the Income and Expenditure account as capital expenditure not increasing value.

During 2009/10 the valuation method used for valuing County Hall has been amended to Depreciated Replacement Cost from existing use value as it has become increasingly difficult to support this value with market evidence due to the building size and specialist nature.

- **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 £20,000, with the exception of Leicestershire Highways who occasionally capitalise an asset under £20,000. Additions below these de-minimus levels are recognised in the Income and Expenditure account as capital expenditure not increasing in value.

### **Revaluation of assets**

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 1<sup>st</sup> 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.

### **Impairment of assets**

Impairment of fixed assets arising from the clear consumption of economic benefit e.g. physical damage such as a major fire is charged in full to the relevant service within the income and expenditure account.

If the impairment was not due to the clear consumption of economic benefit, e.g. a significance reduction in market value, then the sum charged to the service income and expenditure account will be the reduction in value less any unrealisable gains in the revaluation reserve for that asset.

All impairment charges to the income and expenditure account are reversed out via the statement of movement on the general county fund balance.

## **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. *Revenue expenditure funded from capital under statute***

Revenue expenditure funded from capital under statute 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.

The authority capitalises expenditure incurred on the preparation for and subsequent disposal of land and buildings. Such expenditure is written out of fixed assets as capital expenditure not increasing value and is normally financed from capital receipts.

**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<sup>st</sup> 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, including capital grants which cannot be directly associated with an asset. This differs from the CIPFA SORP, but represents a fair charge to income and expenditure year on year. 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 and 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 the 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 which is 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 31<sup>st</sup> 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 1<sup>st</sup> 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.

The council has adopted the amendment to FRS 17, *Retirement benefits*. As a result, quoted securities held as assets in the defined benefit pension scheme are valued at bid price rather than mid-market value.

*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 is reported 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 usually 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 is shown as expenditure. However, as there was no market for the surplus allowances held by the Council these have been valued at zero at the end of 2009/10.

## **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.

## **20. Collection Fund Adjustment Account**

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax. The funds key features relevant to accounting for council tax in the core financial statements are:

- a) In its capacity as a billing authority authority an authority acts as an agent: it collects and distributes council tax income on behalf of the major preceptors and itself.
- b) While the council tax income for the year credited to the Collection fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to the major preceptors and in turn credited to their General Fund.

Up to 2008/9 the SORP required the Council Tax income included in the Income and Expenditure Account to be the amount that under regulation was paid from the Collection Fund to the major preceptor. From the year commencing 1 April 2009 the Council Tax included in the Income and Expenditure Account for the year shall be the accrued income for the year. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.

Since the collection of Council Tax is in substance an agency arrangement, the cash collected by the billing authority from Council Tax debtors belongs proportionally to the billing authority and the major preceptors. There will therefore be a debtor / creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from council taxpayers.