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Leicestershire County Council 2002/03 Statement of Accounts.

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Copies of the Statement of Accounts and a large print version, are available from the Financial Services Division, Resources Department, Leicestershire County Council, County Hall, Glenfield, Leicester LE3 8RB. Tel: Leicester (0116) 2657643.

Explanatory Foreword

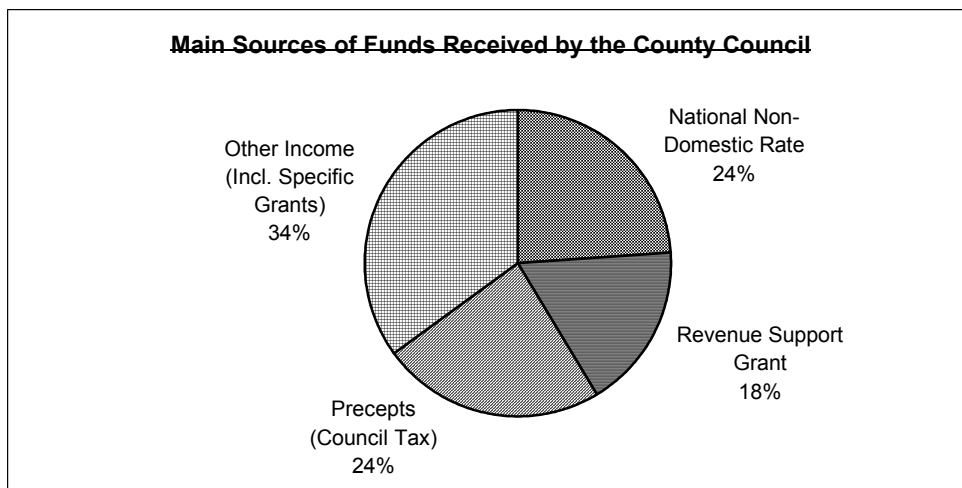
Introduction

This document sets out the published statement of accounts of the Authority for 2002/03. The accounts have been produced in line with the various regulations that govern local authority accounting.

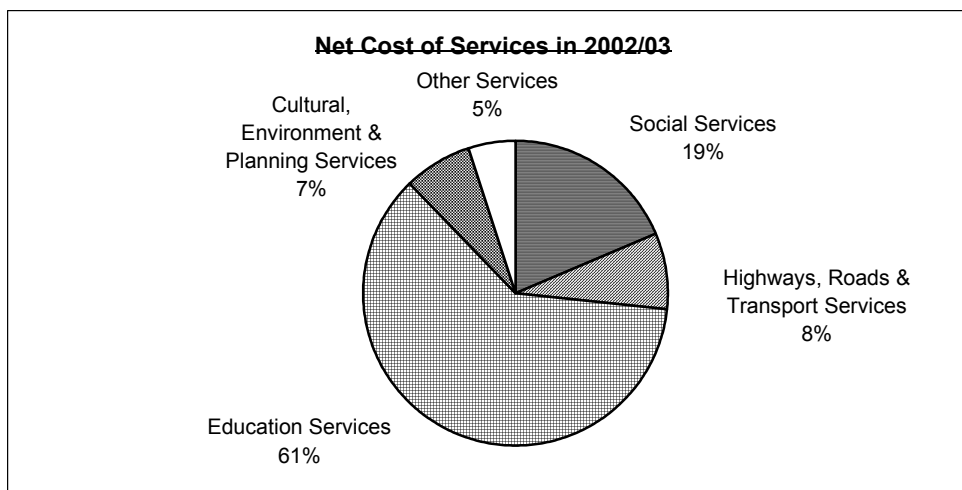
This foreword gives a brief summary of the overall financial position of the County Council, sets out how the County Council's budget is spent and financed and explains the purpose of the financial statements that are contained within the accounts.

Sources of revenue funding and services provided

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



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



Review of the Year - Revenue

In overall terms the County Council underspent against the original budget (updated for carry forwards) of £447.6m by £3.4m. Variations between the budget and outturn occurred on the majority of service areas. The significant variations were:

Underspends

- Education (£496,000). An underspend mainly occurred on the authorities contribution to the standards fund and the phased programme of a Common Admission Policy for 4+ pupils, which was partly offset by overspends on Special Educational Needs and Drug Awareness.
- Highways and Transport (£1,278,000). This was principally a result of savings on the concessionary travel scheme and a higher than expected surplus generated by the Highways DLO.
- Waste Disposal (£576,000). This was mainly due to additional trade waste income and savings on disposal of waste.
- Regulatory Services (£179,000). This was due to difficulties recruiting trading standards officers, additional fee income and delayed departmental reorganisation costs.
- Museums and Arts (£109,000). This was principally due to a higher than expected staff vacancy rate, and income at Snibston Discovery Park being higher than budgeted.

Approximately 50% of these underspends have been carried forward to the 2003/04 financial year.

Review of the Year - Capital

In 2002/03 the County Council spent £39.3m. on capital projects. The table below shows the main areas of expenditure, and how the expenditure was financed.

	Outturn £000
Education	13,474
Transportation	16,859
Social Services	924
Capitalisation of Maintenance	2,105
Industrial Properties	1,567
Other	4,321
Total	<u>39,250</u>
Financed by:	
Credit Approvals	20,216
Capital Receipts	3,279
Government Grants & Contributions from external bodies	12,233
Revenue Funding	2,292
Reserves	1,230
Total	<u>39,250</u>

The Council's long term borrowings, used to finance the purchase of assets were £244m at 31st March 2003. The book value of assets was £611m.

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

	£000
Schools	
• Ashby Grammar – Science Accommodation & Replacement of Temporary Classrooms	842
• Bottesford Belvoir - Replacement of Temporary Accommodation	712
• Loughborough Burleigh - Replacement of Temporary Accommodation	567
• Birstall Riverside – Replacement of Temporary Accommodation	505
Roads	
• Loughborough Epinal Way – Developer Funded Extension to Existing Road	915
• Ashby Bypass	652

Future Prospects

In 2003/04 expenditure is budgeted to increase by 8% on a like for like basis. The vast majority of these extra resources are required to meet unavoidable increased costs and demands on services. Limited resources have been allocated to improve the quality of services in particular to expand the provision of nursery education, improvements to facilities for young people and easier access to services.

The County Council continues to maintain balances to meet unforeseen eventualities. At 31st March 2003 these stood at £5.7m. They are budgeted to fall to £4.9m at the end of 2003/04.

In 2003/04 and beyond the major influences will be the Comprehensive Spending Review (CSR), spending pressures and the County Councils Medium Term Corporate Strategy.

On the capital side the key influence in the medium term will be the introduction of the new self-regulatory approach to the control of capital expenditure, based on prudential guidelines to be issued by CIPFA and backed by a Code of Professional Conduct. The Government plan to put forward proposals on how capital investment will be supported under this system later this year.

Other Accounting Issues

In accordance with the transitional arrangements under Financial Reporting Standard 17 – Retirement Benefits, only a disclosure note is required, and this is included under balance sheet note 24. The net pension liability shown for retirement benefit obligations is not required to be included within the Authority's balance sheet at this stage.

Contents of the Statement of Accounts

- **Consolidated Revenue Account**

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

- **Consolidated Balance Sheet**

Sets out the financial position of the County Council on 31st March 2003. It incorporates all the funds of the Authority, both capital and revenue, with the exception of the Pension Fund and Trust Funds.

- **Statement of Total Movements in Reserves**

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

- **Cash Flow Statement**

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

- **Trading Accounts**

Shows the turnover, total expenditure and resulting surplus or deficit for major trading services, i.e. the Highways, Transportation and Waste Management Department's Highways DLO, and the Leicestershire County Catering Service.

- **Pension Fund**

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

Euro Costs

Following the introduction of the Euro on 1 January 1999, it is unlikely that any significant costs will be incurred prior to a decision being made regarding United Kingdom membership of the Euro.

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 17th September 2003.

**D R PARSONS
CHAIRMAN OF THE CONSTITUTION COMMITTEE**

DATE: 17th September 2003

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 Great Britain ('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 2003.

**A D YOUD
DIRECTOR OF RESOURCES**

DATE: 8TH September 2003

Statement on the System of Internal Financial Control

1. This statement is given in respect of the statement of accounts for Leicestershire County Council. I acknowledge responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.
2. The system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.
3. The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken within the Council. In particular, the system includes:
 - Comprehensive budgeting systems;
 - A system of regular reports to managers with budget responsibilities which indicate financial performance against budget;
 - A system of regular reports to Cabinet monitoring Revenue and Capital expenditure to budget;
 - The production of targets against which financial and other finance related performance is measured;
 - The production of regular financial reports to senior management in a form that enables them to take timely decisions on potential financial problems or opportunities;
 - The use of formal project management disciplines where appropriate.
4. Leicestershire County Council operates an internal audit service. Its role is to provide the County Council and in particular the Director of Resources with assurance that the internal control systems are operating properly and where appropriate recommend improvements. Particular emphasis is paid to management controls over assets; performance; decision making and information provision and policy and legal compliance.

The Internal Audit is conducted in accordance with professional standards set out in CIPFA's Code of Practice for Internal Audit in Local Government.

The Head of Internal Audit has concluded that, based on the evidence of audits conducted in 2002/3 and audit work on systems undertaken in previous years, a number of recommendations for improvements have been made however none of these recommendations are of a magnitude to suggest a fundamental weakness. A general assurance can therefore be given that the internal financial controls are of a sufficient standard to provide for the proper administration of its financial affairs.

5. My review of the effectiveness of the system of internal financial control is informed by:
- The work of managers within the Council;
 - The work of the internal auditors as described above; and
 - The external auditors in their annual audit letter and other reports.
6. There were no fundamental weaknesses of significance found in the system of internal financial control during the financial year 2002/3.

A D YOUD
DIRECTOR OF RESOURCES

DATE: 8th September 2003

Audit Opinion

To : Leicestershire County Council

We have audited the Statement of Accounts on pages 11 to 41 and the Pension Fund Accounts on pages 42 to 49, which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 11 to 15.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTOR OF RESOURCES AND THE DISTRICT AUDITOR

As described on page 6, the Director of Resources is responsible for the preparation of the Statement of Accounts. Our responsibilities as independent auditors are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the Statement of Accounts presents fairly the financial position and results of operations of the Council.

BASIS OF THE OPINION

We carried out our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards.

Our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Statement of Accounts. It also included an assessment of the significant estimates and judgements made by the Authority in the preparation of the Statement of Accounts and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the Statement of Accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the statement of accounts.

OPINION ON THE AUTHORITY'S ACCOUNTS

In our opinion the Statement of Accounts of Leicestershire County Council presents fairly its financial position at 31 March 2003 and its income and expenditure for the year then ended.

OPINION ON THE PENSION FUND ACCOUNTS

In our opinion the Statement of Accounts presents fairly the financial transactions of Leicestershire County Council Pension Fund during the year ended 31 March 2003, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

CERTIFICATE

We certify that we have completed the audit of accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission. The audit cannot be formally concluded and a certificate issued until investigations arising from allegations made to us have been formally completed. We are satisfied that the amount which is the subject of the allegations will not have a material effect on the Statement of Accounts.

Andrew Blackburn
District Auditor

Date: November 2003

Statement of Accounting Principles

1. General principles

The accounts have been prepared in accordance with the Statement of Recommended Practice on Local Authority accounts and the guidance notes issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) on the application of accounting standards (FRS's and SSAP's).

2. Provisions

The County Council has established a number of provisions to meet known future liabilities.

The major Provisions are:

(i) Insurance

The insurance policies held by the County Council require a significant level of self insurance, the level of this being recommended by independent advisers. The monies set aside for self insurance are split between a provision representing outstanding, unsettled claims at 31 March 2003 and a reserve to meet future claims.

(ii) Property and Schools Maintenance

Provides for landlord repairs to the majority of the council's establishments. A rolling programme of works can thus be undertaken which spans financial years.

(iii) DLO Future Liabilities and Losses

Provides for possible future losses or reduced profits on uncompleted works, remedial works, replacement of uninsured losses and future leased car payments.

(iv) Leased Cars

Created to fund the end-loaded rental payments, in respect of leased cars, such payments falling due on the termination of the lease.

(v) Landscape Projects

Sums received from mineral extraction companies to be utilised for the restoration of these sites.

(vi) Magistrates Courts

Formed from Capital grants and Revenue monies to finance the restructuring of the Leicestershire Magistrates Courts Service, a part of the HM Court Service.

(vii) Social Services Mental Health: Refunds

Provides for refunds to people with mental health difficulties, who have been charged for residential and nursing care, for which a legal judgement has been made to repay the levy charged.

3. Reserves

A number of reserves exist in addition to the County Fund to finance future capital and revenue expenditure. In addition to the Insurance Reserve referred to above, the significant reserves are:

REVENUE

(i) **Renewal of Equipment and Vehicles**

Resources for the funding of replacement vehicles and equipment and future service developments for the majority of departments.

(ii) **Industrial Properties**

Surpluses arising on the provision of Industrial Properties are credited to this reserve which is used to finance future capital expenditure, including development of the Industrial Estate.

CAPITAL

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

(i) **Fixed Asset Restatement Reserve**

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

(ii) **Capital Financing Reserve**

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

4. **Fixed assets**

All expenditure on the acquisition and/or improvement of fixed assets is capitalised provided that the asset yields a benefit to the Authority for a period of more than one year. However, some relatively minor items may be financed from revenue. No accrual of capital expenditure is made as it is considered that such amounts are relatively insignificant.

Fixed assets are valued on the basis recommended by CIPFA 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:

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

Valuation is carried out on a selective on-going basis such that all assets are revalued once every five years. The valuation is carried out by various Chartered Surveyors in the Property Services Division of the Resources Department.

The current asset values used in the accounts are based on a certificate issued by the Council's Head of Property Services Division as at 1 April 2002. Additions since that date are either included in the accounts at their cost of acquisition (if above £50,000), or written off to the fixed asset restatement reserve if the actual expenditure does not increase the asset valuation.

- **infrastructure assets** are included at the value of outstanding debt brought forward on 1 April 1994. Additions since that date are included at their original 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 historical cost or nominal values.
- **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 historic cost for all assets with an original cost in excess of £10,000.

5. Leased Assets and Deferred Purchase Arrangements

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

6. Deferred charges

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

7. Basis of charges for capital

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 dependant upon the reason for that impairment, an accelerated depreciation charge may be made to the revenue account.

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

- 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).

b) Interest Charges

Notional interest charges are applied to all assets in the balance sheet, and are based on asset valuations at the beginning of the financial year. The notional rate of interest for assets carried at current value is 6% (6% 2001/02) and for those carried at historic cost it is 6% (6% 2001/02).

c) Assets acquired under Finance Leases

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

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

8. Capital receipts

Proceeds from the sale of assets are credited to the usable capital receipts reserve. All such receipts are available to the authority to enhance its programme of capital expenditure or to reduce external borrowing.

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

9. Basis of debtors/creditors included in the accounts

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

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

10. Government grants

Government grants are accounted for on an accruals basis. Income in respect of revenue grants has been credited to the appropriate service revenue account, whilst the majority of capital grants are credited to the government grants and contributions deferred account; amounts are then released from this account to offset any depreciation on assets financed from such resources.

Education Devolved Formula Capital grants are released to schools through schools revenue accounts.

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 revenue in the year of purchase. Stocks are valued at cost price with allowance for obsolescent or slow moving stocks where material.

Work in progress is shown at cost price.

12. Allocation of support service costs

The revenue accounts of the various services include a charge for all support services provided by the central departments of the Authority other than corporate management costs.

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.