Leicestershire County Council 2013/14 Statement of Accounts and Annual Governance Statement

Contents

Copies of the Statement of Accounts and Annual Governance Statement, and a large print version, are available from the Corporate Resources Department, Leicestershire County Council, County Hall, Glenfield, Leicester LE3 8RB. Tel: Leicester (0116) 3057805. Alternatively, the accounts can be viewed on the County Council's website by visiting www.leics.gov.uk.

Explanatory Foreword

Introduction

This document sets out the published Statement of Accounts and Annual Governance Statement of the Authority for 2013/14.

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

Revenue Budget and Outturn

In February 2013 the Authority approved a net revenue budget for 2013/14 of £356.0m. In addition £8.6m of 2012/13 underspending was carried forward and added to the budget. The final outturn position for the year against the revised budget is set out in the table below together with the sources of income from which the Authority's net revenue expenditure was financed.

	Budget	Outturn	Variance	Carry forwards	Variance
	£m	£m	£m	£m	£m
Children & Young People	60.9	59.2	(1.7)	0.8	(0.9)
Adults & Communities	132.9	137.5	4.6	0.0	4.6
Environment & Transport	85.0	81.8	(3.2)	2.3	(0.9)
Chief Executives	14.7	13.4	(1.3)	0.3	(1.0)
Corporate Resources	35.1	33.6	(1.5)	0.3	(1.2)
Public Health	1.8	0.3	(1.5)	0.0	(1.5)
Contingencies etc.	9.8	3.3	(6.5)	0.0	(6.5)
Central Items	24.4	19.7	(4.7)	1.0	(3.7)
Approved repayment of debt	0.0	8.4	8.4	0.0	8.4
Approved additional commitments	0.0	3.9	3.9	0.0	3.9
	364.6	361.1	(3.5)	4.7	1.2
Funded by:					
Revenue Support Grant	(81.2)	(81.6)	(0.4)	0.0	(0.4)
Business Rates	(54.1)	(54.9)	(0.8)	0.0	(0.8)
Council Tax	(220.7)	(220.7)	0.0	0.0	0.0
Carry forwards from 2012/13	(8.6)	(8.6)	0.0	0.0	0.0
	(364.6)	(365.8)	(1.2)	0.0	(1.2)
NET OUTTURN	0.0	(4.7)	(4.7)	4.7	0.0

Review of the Year - Income and Expenditure

In overall terms the Authority underspent against the updated budget by £4.7m, which is offset by carry forwards. The significant underspends against the budget are set out below:

Underspends

Children and Young People's Service (£1.7m, £0.9m net)

The main underspends relate to the early identification of savings, offset by overspends, particularly regarding increased demands on the Placements budget, where there has been an increased need to place children with independent fostering agencies.

Environment and Transport (£3.2m gross, £0.9m net)

The main underspends include highway structural maintenance, due to receipt of additional funding for flood damaged roads late in the year, and mainstream school transport from e-auctions and contract procurement savings. There was also a net underspend on the Waste budget. These underspends were partly offset by a shortfall in the contribution from Leicestershire Highways Operations and overspends on Special Educational Needs and Social Care Transport.

Chief Executives (£1.3m gross, £1.0m net)

This underspend mainly relates to slippage on Extracare work funded by New Homes Bonus grant, staff vacancies and additional income.

Corporate Resources (£1.5m gross, £1.2m net)

Underspends mainly relate to staff vacancies and increased income from trading activities, partly offset by overspends on Corporate Projects and Facilities Management.

Public Health (£1.5m, gross and net)

The costs of budgets including Leicester-Shire and Rutland Sport, Drug and Alcohol Team and Teenage Pregnancy and Young Person Substance Misuse can be met from the higher than anticipated ringfenced Public Health grant which means that the Authority contributions to these services are not required.

Contingencies (£6.5m, gross and net)

The original budget included a contingency of £9.0m for inflation, of which £8.3m has been allocated regarding residential care charge increases, the 2013 pay award, highways maintenance, waste management, passenger transport, street lighting and other energy increases, insurance, ICT and winter maintenance salt inflation. The remaining balance of £0.7m is an underspend.

The original budget included a contingency of £4.5m against delays in the achievement of savings. No major problems have been identified, other than on the Effective Support saving, which have been absorbed by net underspends on other services. The contingency is therefore unspent.

A contingency of £1.2m was made for council tax collection deficits following the implementation of the Government reforms on the Localisation of Council Tax Support. The situation has been monitored on a monthly basis in liaison with the District Councils and the increased tax bases and collection fund balance projections for 2014/15 show that there are not any significant risks to collection fund balances and the contingency is therefore unspent.

Central Items (£4.7m gross, £3.7m net)

The main underspends relate to:

- capital financing (£2.8m), as anticipated external debt was not borrowed due to continued low interest rates and the level of internal balances
- prior year adjustments (£0.9m), mainly relating to the Authority's estimated share of surplus balances from Leicester Shire Connexions Services Limited's reserves following the decision to close the service. This is to be carried forward and used to reduce the pension liabilities of the former service.
- financial arrangements (£0.6m) mainly due to the receipt of an ESPO dividend and a rebate on a centralised agency arrangement
- Education Services Grant income (£0.4m), as a consequence of Academy conversions being slower than anticipated.

Overspends

Adults and Communities (£4.6m gross and net)

The net overspend mainly relates to community based services (independent sector). There has been a shortfall in the level of savings achieved by the Effective Support efficiency savings project, as well as increasing demographic and pricing pressures. There has also been an overspend on Residential Services, due to combination of increasing numbers of service users and reducing levels of income from service users contributing to their own care. These overspends are partly offset by savings in other parts of the Department's budget, particularly on community based in house services.

Repayment of Debt and Additional Commitments

Cabinet agreed a contribution of £8.4m to fund voluntary contributions of Minimum Revenue Provision (MRP) to reduce the capital financing requirement and ongoing capital financing costs. A total of £3.9m was also set aside to fund a number of additional commitments including investment in transformation and the Leicester, Leicestershire Integrated Transport Model.

Difference between the Budget and the Comprehensive income and Expenditure Statement

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

Review of the Year – Capital

In 2013/14 the Authority spent £71.5m on capital projects. The table below shows the main areas of expenditure.

Department	Outturn £m
Children & Young People's Service	19.0
Adults and Communities	2.7
Environment and Transportation - Transportation	42.0
Environment and Transportation - Waste Management	3.8
Chief Executive (Various Grants for Rural Services)	0.2
Corporate Resources (ICT, County Farms, County Hall, Travellers Site, Industrial Properties, Carbon Management)	2.7
Corporate Programme	1.1
Total	**71.5**

The above expenditure was financed through several sources, the details of which appear in note 38 to the financial statements.

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

	£m
Schools	
◻ Charnwood – new area special school	6.9
Adults and Communities	
◻ Snibston Discovery Park – refurbishment of monument	1.5
Environment & Transportation	
◻ Roads and Carriageways	10.1
◻ Loughborough Town Centre	6.6
◻ Braunstone Asda Roundabout	3.4
◻ A50/A46 Junction Improvement	2.5
◻ Bridge Maintenance	1.8
Environment & Transportation – Waste Management	
◻ Whetstone Bulking/Transfer Station and Recycling and Household Waste Site	3.3
Corporate Programme	
◻ Purchase of former Fire Head Quarters on County Hall Campus	1.1

Current Borrowing

The capital financing requirement (CFR) shown in note 38 to the financial statements measures the Authority's need to borrow for capital purposes. The total of non current assets at the Balance Sheet date was £854.8m. The CFR was £317.6m and actual debt was £294.7m. The difference between the CFR and the actual debt is the temporary use of working cash balances held by the Authority. During 2013/14, one maturity loan of £12m was repaid to the Public Works Loans Board (PWLB). Details of the loans held by the Authority are shown in note 43 to the financial statements. The level of capital borrowing is within the Authority's 2013/14 Prudential Indicators that inform the Authority whether its capital investment plans are affordable, prudent and sustainable.

Academy Schools

During 2013/14 twenty five schools transferred to Academy Status resulting in the net book value of the schools, £54.2m (2012/13 eighty two schools at £181.1m) being written out of the Authority's Balance Sheet through the Other Operating Expenditure section of the Comprehensive Income and Expenditure Statement. These entries are reversed out via the Movement in Reserves Statement and do not have an impact on the General County Fund. The Authority has no choice in whether to transfer these assets and does not receive any consideration for their transfer. Further transfers of schools to Academy Status are expected in 2014/15 and later years.

Public Health

The reform of the Public Health system in England has seen the responsibility for a large part of Public Health being transferred from the NHS to Local Authorities from 2013/14. The new responsibilities have seen the Authority taking the lead for improving Public Health and coordinating local efforts to protect the public's health and wellbeing, and ensuring health services effectively promote population health. The Statement of Accounts includes Public Health income and expenditure from 2013/14.

Future Prospects

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

The Authority's Medium Term Financial Strategy (MTFS) agreed in February 2014 is based on a council tax freeze for 2014/15 followed by annual increases of 1.5% in the following three years and assumes that the level of Government funding will decline by a further 34% over the four years of the MTFS. The Chancellor of the Exchequer's 2014 Budget statement in March 2014 confirmed that austerity budgets will continue to at least 2018/19 and it estimated that additional savings of around £28m will be required by 2018/19. Major changes to local government funding from 2013/14, including the localisation of business rates and council tax support, may pose risks to the levels of income available to the Authority.

The main costs and risks over the medium term continue to be in Adult Social Care and Waste. This is largely as a result of an ageing population with increasing care needs and the cost of Landfill Tax and alternative methods of waste disposal respectively. Consumer Prices Index (CPI) inflation is predicted to increase to around 3.3% by 2015/16.

A significant pressure is the identification and delivery of efficiency savings. The Authority will need to continue to invest in significant service reconfiguration both to improve services and generate greater efficiency savings. The Authority is therefore creating a Transformation Programme to address these pressures. The MTFS also includes reductions to services.

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

Changes in Accounting Standards

There were no material changes in accounting standards for 2013/14.

Contents of the Statement of Accounts

The following financial statements represent the Authority's accounts for the 2013/14 financial year:

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

  This financial statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General County Fund Balance for tax setting purposes. The net increase or decrease before transfers to earmarked reserves line shows the statutory General County Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

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

  This financial statement shows the accounting cost in the year of providing services in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. The Authority raises taxation to cover expenditure in accordance with statutory regulations which may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

  The CIES has two sections:

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

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

- ***Balance Sheet:***

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

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

- ***Cash Flow Statement:***

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

- ***Pension Fund:***

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

Date of Authorisation of Accounts

The accounts were authorised for issue on the 29th September 2014. This was the last date when events after the Balance Sheet date have been considered.

C TAMBINI
ASSISTANT DIRECTOR, STRATEGIC FINANCE & PROPERTY
Date: 29 SEPTEMBER 2014

Movement in Reserves Statement

Movement in reserves during 2013/14	*General Fund Balance £m	Earmarked Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m	Note
Balance at 31 March 2013	27.8	106.5	1.6	7.8	143.7	(23.1)	120.6	
Deficit on provision of services	(41.0)	0.0	0.0	0.0	(41.0)	0.0	(41.0)	
Other Comprehensive Expenditure and Income	0.0	0.0	0.0	0.0	0.0	(14.9)	(14.9)	13,14 15
Total Comprehensive Expenditure and Income	(41.0)	0.0	0.0	0.0	(41.0)	(14.9)	(55.9)	
Adjustments between accounting basis & funding basis under regulations	37.2	0.0	9.4	(3.0)	43.6	(43.6)	0.0	6,7
Net Increase/ (Decrease) before Transfers to Earmarked Reserves	(3.8)	0.0	9.4	(3.0)	2.6	(58.5)	(55.9)	
Transfers to/from Earmarked Reserves	(0.3)	0.2	0.0	0.0	(0.1)	0.0	(0.1)	9
Increase/ (Decrease) in Year	(4.1)	0.2	9.4	(3.0)	2.5	(58.5)	(56.0)**	
Balance at 31 March 2014 carried forward	**23.7**	**106.7**	**11.0**	**4.8**	**146.2**	**(81.6)**	**64.6**	

*See Note 8 for General Fund Balance breakdown between uncommitted funds and schools balances
**CIES = (£55.9m) due to rounding

Restated Movement in reserves during 2012/13	***General Fund Balance £m**	**Earmarked Reserves £m**	**Capital Receipts Reserve £m**	**Capital Grants Unapplied £m**	**Total Usable Reserves £m**	**Unusable Reserves £m**	**Total Authority Reserves £m**	**Note**
Balance at 31 March 2012	32.0	112.6	0.9	6.3	151.8	155.2	307.0	
Deficit on provision of services	(122.7)	0.0	0.0	0.0	(122.7)	0.0	(122.7)	
Other Comprehensive Expenditure and Income	0.0	0.0	0.0	0.0	0.0	(63.7)	(63.7)	13,14 15
Total Comprehensive Expenditure and Income	(122.7)	0.0	0.0	0.0	(122.7)	(63.7)	(186.4)	
Adjustments between accounting basis & funding basis under regulations	112.4	0.0	0.7	1.5	114.6	(114.6)	0.0	6,7
Net Increase/ (Decrease) before Transfers to Earmarked Reserves	(10.3)	0.0	0.7	1.5	(8.1)	(178.3)	(186.4)	
Transfers to/from Earmarked Reserves	6.1	(6.1)	0.0	0.0	0.0	0.0	0.0	9
Increase/ (Decrease) in Year	(4.2)	(6.1)	0.7	1.5	(8.1)	(178.3)	(186.4)	
Balance at 31 March 2013 carried forward	**27.8**	**106.5**	**1.6**	**7.8**	**143.7**	**(23.1)**	**120.6**	

*See Note 8 for General Fund Balance breakdown between uncommitted funds and schools balances.

Comprehensive Income and Expenditure Statement

Restated 2012/13					2013/14		
Gross Expenditure £m	Gross Income £m	Net Expenditure £m		Note	Gross Expenditure £m	Gross Income £m	Net Expenditure £m
			CONTINUING SERVICES				
452.0	(357.3)	94.7	Children's and Education		347.6	(243.5)	104.1
202.3	(71.1)	131.2	Adult Social Care		211.9	(60.0)	151.9
75.9	(25.0)	50.9	Highways and Transport		70.9	(23.1)	47.8
24.3	(8.6)	15.7	Cultural & Related Services		23.7	(7.1)	16.6
35.2	(3.4)	31.8	Environmental & Regulatory Services		34.5	(2.5)	32.0
6.4	(0.7)	5.7	Planning Services		6.6	(1.8)	4.8
1.7	(0.9)	0.8	Central Services to the Public		2.4	(0.9)	1.5
0.1	(0.1)	0.0	Housing Services		0.1	(0.1)	0.0
25.2	(18.3)	6.9	Corporate & Democratic Core		30.7	(19.3)	11.4
4.3	(39.9)	(35.6)	Non Distributed Costs	4	3.8	(10.0)	(6.2)
			ACQUIRED OPERATIONS				
			Public Health	47	23.1	(21.9)	1.2
827.4	**(525.3)**	**302.1**	**NET COST OF SERVICES**		**755.3**	**(390.2)**	**365.1**
0.3	0.0	0.3	Other Operating Expenditure (Excluding transfer of Academies)	10	0.3	0.0	0.3
181.1	0.0	181.1	Other Operating Expenditure (Transfer of Academies)	4,10	54.2	0.0	54.2
36.7	(4.8)	31.9	Financing and Investment Income and Expenditure	11	38.7	(3.8)	34.9
0.0	(392.7)	(392.7)	Taxation and Non-specific Grant Income	12	0.0	(413.5)	(413.5)
		122.7	**(SURPLUS) OR DEFICIT ON PROVISION OF SERVICES**				**41.0**
			ITEMS THAT WILL NOT BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES				
		(15.1)	(Surplus) or deficit on revaluation of non current assets (Notes 14 and 15)				(72.2)
		78.8	Actuarial (gains) / losses on pension assets / liabilities (Note 13)				87.1
		63.7	**OTHER COMPREHENSIVE INCOME AND EXPENDITURE**				**14.9**
		186.4	**TOTAL COMPREHENSIVE INCOME AND EXPENDITURE**				**55.9**

Balance Sheet as at 31 March 2014

31 March 2013 £m		Note	31 March 2014 £m	
	NON-CURRENT ASSETS			
	Property, Plant and Equipment			
471.8	Land and Buildings	14	465.2	
5.8	Vehicles, Plant, Furniture & Equipment	14	7.0	
272.1	Infrastructure	14	302.6	
11.7	Community Assets	14	11.3	
4.3	Assets Under Construction	14	1.1	
4.0	Surplus Assets	14	6.8	
769.7			**794.0**	
4.4	**Heritage Assets**	15	**4.4**	
0.8	**Intangible Assets**	14	**1.6**	
	Non-Operational Assets			
0.0	Long Term Investments	16	0.0	
51.6	Long Term Debtors	19	54.8	
51.6			**54.8**	
826.5	**Total Non-Current Assets**			**854.8**
	CURRENT ASSETS			
0.4	Assets Held for Sale	14	0.1	
0.9	Inventories	17	1.3	
73.2	Short Term Debtors	20	72.7	
81.4	Cash and Cash Equivalents	21	53.1	
64.3	Short Term Investments	16, 18	103.5	
220.2	**Total Current Assets**			**230.7**
	CURRENT LIABILITIES			
(0.1)	Bank Overdraft	21	0.0	
(16.2)	Short Term Borrowing	16	(12.4)	
(93.6)	Short Term Creditors	22	(96.0)	
(2.2)	Short Term Capital Grants Receipts in Advance	37	(0.2)	
(0.1)	Short Term Finance Lease Liabilities	39	(0.1)	
(4.4)	Short Term Provisions	23	(2.8)	
(116.6)	**Total Current Liabilities**			**(111.5)**
	NON CURRENT LIABILITIES			
(296.6)	Long Term Borrowing	16	(288.9)	
(1.6)	Long Term Finance Lease Liabilities	39	(1.5)	
(8.7)	Long Term Provisions	23	(6.9)	
(497.6)	Net Pensions Liability	13	(603.3)	
(5.0)	Long Term Capital Grants Receipts in Advance	37	(8.8)	
(809.5)	**Total Non Current Liabilities**			**(909.4)**
120.6	**Net Assets**			**64.6**

31 March 2013 £m		Note	31 March 2014 £m	
	FINANCED BY			
	Usable Reserves			
27.8	General County Fund	8	23.7	
106.5	Earmarked Revenue Reserves	9	106.7	
1.6	Capital Receipts Reserve		11.0	
7.8	Capital Grants Unapplied		4.8	
143.7	**Total Usable Reserves**			**146.2**
	Unusable Reserves			
127.4	Revaluation Reserve	7	161.6	
(497.6)	Pension Reserve	7	(603.3)	
354.4	Capital Adjustment Account	7	367.8	
4.7	Deferred Capital Receipts Reserve	7	2.2	
(6.2)	Financial Instruments Adjustment Account	7	(6.0)	
0.5	Collection Fund Adjustment Account	7, 45	1.9	
(6.3)	Short-Term Accumulating Compensated Absences Adjustment Account	7	(5.8)	
(23.1)	**Total Unusable Reserves**			**(81.6)**
120.6	**Total Reserves**			**64.6**

Cash Flow Statement

Restated 2012/13 £m		Note	2013/14 £m	2013/14 £m
122.7	Net (surplus) / deficit on the provision of services		41.0	
(195.8)	Adjust net (surplus) / deficit on the provision of services for non cash movements	24	(107.5)	
24.9	Adjust for items included in the net (surplus) / deficit on the provision of services that are investing and financing activities	24	31.6	
12.6	Net Cash flows from Operating Activities	25	12.9	
(35.6)	Total Net cash flows from Operating Activities			(22.0)
(9.3)	Net cash flows from Investing Activities	26		38.8
12.5	Net cash flows from Financing Activities	27		11.4
(32.4)	**Net (Increase)/Decrease in Cash and Cash Equivalents**			28.2
(48.9)	Cash and Cash Equivalents at the Beginning of the Reporting Period			(81.3)
(81.3)	Cash and Cash Equivalents at the End of the Reporting Period			(53.1)

Notes to the Accounts

1. Accounting Standards that have been issued but not yet adopted

The CIPFA Code of Practice on Local Authority Accounting requires the Authority to disclose information relating to the impact of any accounting changes that will be required by any new standards that have been issued by 1 January 2014 but not yet adopted by the Code for the relevant year. The following changes have not yet been implemented:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in Other Entities
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures

The above five changes in accounting standards are all related to Group Accounts which the Authority is not required to produce and these will have minimal or no impact to the Authority.

- IAS 32 Financial Instruments: Presentations – Offsetting Financial Assets and Financial Liabilities. The Authority does not offset Assets and Liabilities therefore no further disclosures would be required.

2. Critical Judgements in Applying Accounting Policies

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

- Municipal Mutual Insurance Limited (MMI), the Authority's former insurer between November 1969 and October 1991, ceased writing insurance business owing to financial difficulties in September 1992. MMI made a scheme of arrangement with its creditors in the event of the company becoming insolvent. Following the Supreme Court judgement in March 2012 that Insurers are liable for claims based upon the date of exposure to asbestos fibres (which brings considerably more asbestos related claims within the period that the MMI was providing insurance cover) the scheme administrators triggered the scheme of arrangement and requested a levy from the scheme creditors during 2013/14. The Authority paid £2.2m funded from the Provision for uninsured losses. Following the payment of the levies the latest financial information for MMI shows estimated net liabilities of £28m. At this stage, the scheme administrators do not intend to request any further levies, however the position continues to be regularly monitored and if it becomes probable that a further transfer of future economic benefits will be required the Provision will be increased.

- During 2013/14 twenty five schools have converted to Academy status. The assets have been transferred to the Academies as 125 year finance leases. This has resulted in the land remaining on the Authority's Balance Sheet as 125 years is not a major part of the land's indefinite life. The buildings are not included on the Authority's Balance Sheet as they have been leased for the major part of their remaining useful life.

- The Authority has determined that the East Midlands Shared Services Joint Committee meets the definition of a jointly controlled operation. The Authority has therefore accounted for its share of the Joint Committee's income and expenditure within its accounts as detailed in note 33.

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

3. *Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty*

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

The items in the Authority's Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Items	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The carrying value of Property, Plant and Equipment at 31 March 2014 is £794.0m	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for Property, Plant and Equipment would increase by £1.9m for every year that useful lives had to be reduced.

Insurance Reserve	There is uncertainty that the Authority may have to meet potential liabilities arising from Municipal Mutual Insurance Limited (MMI) that is subject to a run-off of claims following its closure to insurance business in 1992. The latest accounts of MMI show a net estimated liability of £28m after the imposition of a levy by the scheme administrators on all creditors. At this stage the scheme of administrators do not intend to trigger a further levy payment, however experience to date has been a worsening position with actual claims exceeding the forecast made by MMI's actuaries. The level of the provision will be kept under review and transfers made, as necessary, from the uninsured loss fund, to take account of the latest MMI position and also of other failed insurers such as The Independent Insurance Company Limited.	The position is regularly reviewed to ensure that there are sufficient funds in the insurance reserve to fund future uninsured liabilities. As at 31 March 2014 the Uninsured Loss Reserve has a balance of £4.8m to fund the risk related to MMI and any other uninsured losses.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. An independent firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied, although ultimate responsibility for forming these assumptions remain with the Authority. The carrying value of the Pension Liability at 31 March 2014 is £603.3m	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £138.4m. A one year increase in member life expectancy compared with the assumption used would increase the liabilities by £44.4m. However, the assumptions interact in complex ways. During 2013/14, the Authority's actuaries advised that the net pensions liability had increased by £23m as a result of estimates being corrected as a result of experience and increased by £65.4m attributable to updating of the assumptions.
Debtors	At 31 March 2014, the Authority had a balance of sundry debtors of £18.5m and secured memo debt (elderly persons debt secured against properties) of £4.8m. Provisions for doubtful debts are maintained for certain categories of income by individual departments. However in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment for doubtful debts would require an additional £1.6m to be set aside as an allowance.

4. *Material Items of Income and Expense*

During 2013/14 twenty five schools transferred to Academy Status resulting in the net book value of the schools, £54.2m (2012/13 eighty two schools at £181.1m) being written out of the Authority's Balance Sheet through the Other Operating Expenditure section of the Comprehensive Income and Expenditure Statement (CIES). These entries are reversed out via the Movement in Reserves Statement and do not have an impact on the General County Fund. The Authority has no choice in whether to transfer these assets and does not receive any consideration for their transfer. Further transfers of schools to Academy Status are expected in 2014/15 and later years.

When schools become Academies the pension fund assets and liabilities of the schools, as assessed by the Actuary at the time of transfer, are transferred from the Authority's pension scheme to separate pension funds within the Local Government Pension Scheme. For 2013/14 there was an overall net reduction in liabilities to the Authority's pension scheme totalling £10.0m (2012/13 £39.9m) on settlement which has been credited to the Non Distributed Cost line in the CIES.

5. *Events after the Balance Sheet Date*

The Statement of Accounts was authorised for issue by the Assistant Director of Strategic Finance and Property on 29 September 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2014 as they provide information that is relevant to an understanding of the Authority's financial position, but do not relate to conditions at that date:

- A further fourteen schools have transferred to Academy Status by the authorised for issue date. The net book value to be written out of the Authority's Balance Sheet by this date is £28.2m.

6. *Adjustments between Accounting Basis and Funding Basis under Regulations*

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

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

General County Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

	Usable Reserves			
2013/14	**General County Fund Balance £m**	**Capital Receipts Reserve £m**	**Capital Grants Unapplied £m**	**Movement in Unusable Reserves £m**
Adjustments primarily involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Non-current asset depreciation and impairment	28.7			(28.7)
Revaluation losses on Property, Plant and Equipment	17.3			(17.3)
Amortisation of intangible assets	0.2			(0.2)
Capital grants and contributions	(43.1)			43.1
	Usable Reserves			
2013/14	**General County Fund Balance £m**	**Capital Receipts Reserve £m**	**Capital Grants Unapplied £m**	**Movement in Unusable Reserves £m**
Revenue expenditure funded from capital under statute	3.3			(3.3)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	66.5			(66.5)

Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	(13.6)			13.6
Principal repayments of transferred Debt	2.1			(2.1)
Voluntary provision for the Repayment of Debt	(8.4)			8.4
Capital expenditure charged against the General Fund	(20.0)			20.0
Adjustments primarily involving the Capital Grants Unapplied Account				
Application of capital grants and contributions credited to the Comprehensive Income and Expenditure Statement yet to be applied			(3.0)	3.0
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(12.3)	12.3		0.0
Use of the Capital Receipts Reserve to finance new capital expenditure		(5.4)		5.4
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		2.5		(2.5)
Adjustments primarily involving the Financial Instruments Adjustment Account				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(0.2)			0.2
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	18.6			(18.6)

	Usable Reserves			
2013/14	**General County Fund Balance £m**	**Capital Receipts Reserve £m**	**Capital Grants Unapplied £m**	**Movement in Unusable Reserves £m**
Adjustments primarily involving the Collection Fund Adjustment Account				
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	(1.4)			1.4
Adjustments primarily involving the Short-term Accumulating Compensated Absences Adjustments Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(0.5)			0.5
Total Adjustments	**37.2**	**9.4**	**(3.0)**	**(43.6)**

	Usable Reserves			
2012/13	**General County Fund Balance £m**	**Capital Receipts Reserve £m**	**Capital Grants Unapplied £m**	**Movement in Unusable Reserves £m**
Adjustments primarily involving the Capital Adjustment Account ***Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement***				
Non-current asset depreciation and impairment	35.8			(35.8)
Revaluation losses on Property, Plant and Equipment	16.3			(16.3)
Amortisation of intangible assets	0.3			(0.3)
Capital grants and contributions	(37.4)			37.4
Revenue expenditure funded from capital under statute	1.5			(1.5)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	186.7			(186.7)

	Usable Reserves			
2012/13	**General County Fund Balance £m**	**Capital Receipts Reserve £m**	**Capital Grants Unapplied £m**	**Movement in Unusable Reserves £m**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	(15.2)			15.2
Principal repayments of transferred Debt	2.2			(2.2)
Voluntary provision for the Repayment of Debt	(25.6)			25.6
Capital expenditure charged against the General Fund	(16.8)			16.8
Adjustments primarily involving the Capital Grants Unapplied Account				
Application of capital grants and contributions credited to the Comprehensive Income and Expenditure Statement yet to be applied	(1.5)		1.5	0.0
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(5.6)	2.7		2.9
Use of the Capital Receipts Reserve to finance new capital expenditure		(3.8)		3.8
Transfer from Deferred Capital Receipts Reserve on receipt of cash		1.8		(1.8)
Adjustments primarily involving the Financial Instruments Adjustment Account				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(0.1)			0.1
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(19.9)			19.9
Adjustments primarily involving the Collection Fund Adjustment Account				
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	0.2			(0.2)

	Usable Reserves			
2012/13	**General County Fund Balance £m**	**Capital Receipts Reserve £m**	**Capital Grants Unapplied £m**	**Movement in Unusable Reserves £m**
Adjustments primarily involving the Short-term Accumulating Compensated Absences Adjustments Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(8.5)			8.5
Total Adjustments	**112.4**	**0.7**	**1.5**	**(114.6)**

7. *Unusable Reserves*

Revaluation Reserve

	2012/13 £m	2013/14 £m
Balance at 1 April	**161.9**	**127.4**
Upward revaluation of assets	28.5	81.5
Downward revaluation of assets losses not charged to the Surplus or Deficit on the Provision of Services	(13.4)	(9.3)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(45.6)	(33.3)
Difference between fair value depreciation and historical cost depreciation	(4.0)	(4.7)
Balance at 31 March	**127.4**	**161.6**

Capital Adjustment Account

	2012/13 £m	2013/14 £m
Balance at 1 April	**448.9**	**354.4**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation of non-current assets	(31.8)	(24.0)
Revaluation losses on Property, Plant and Equipment	(16.3)	(17.3)
Amortisation of intangible assets	(0.3)	(0.2)
Revenue expenditure funded from capital under statute	(1.5)	(3.3)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(141.1)	(33.2)

Capital financing applied in year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	3.8	5.4
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	37.4	43.1
Application of grants to capital financing from the Capital Grants Unapplied Account	0.0	3.0
Statutory provision for the financing of capital investment charged against the General Fund Balance	15.2	13.6
Voluntary provision for the financing of capital investment charged against the General Fund Balance	25.6	8.4
Principal Repayments of transferred Debt	(2.3)	(2.1)
Capital expenditure charged against the General County Fund Balance	16.8	20.0
Balance at 31 March	**354.4**	**367.8**

Deferred Capital Receipts Reserve

	2012/13 £m	**2013/14 £m**
Balance at 1 April	**3.6**	**4.7**
Deferred Capital Receipts recognised in year	2.9	0.0
Transfer to the Capital Receipts Reserve upon receipt of cash	(1.8)	(2.5)
Balance at 31 March	**4.7**	**2.2**

Financial Instruments Adjustment Account

	2012/13 £m	**2013/14 £m**
Balance at 1 April	**(6.3)**	**(6.2)**
Amounts by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements:		
Annual write down of premiums paid on rescheduled debt	0.8	0.8
Annual write down of discounts received on rescheduled debt	(0.7)	(0.6)
Balance at 31 March	**(6.2)**	**(6.0)**

Pensions Reserve

	2012/13 £m	**2013/14 £m**
Balance at 1 April	**(438.8)**	**(497.6)**
Actuarial gains or losses on pensions assets and liabilities	(78.8)	(87.1)

Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(11.7)	(47.7)
Employer's pensions contributions and direct payments to pensioners payable in the year	31.7	29.1
Balance at 31 March	**(497.6)**	**(603.3)**

Collection Fund Adjustment Account

	2012/13 £m	2013/14 £m
Balance at 1 April	**0.7**	**0.5**
Amounts by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	(0.2)	1.4
Balance at 31 March	**0.5**	**1.9**

Short-term Accumulating Compensated Absences Adjustment Account

	2012/13 £m	2013/14 £m
Balance at 1 April	**(14.8)**	**(6.3)**
Settlement or cancellation of accrual made at the end of the preceding year	14.8	6.3
Amounts accrued at the end of the current year	(6.3)	(5.8)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**8.5**	**0.5**
Balance at 31 March	**(6.3)**	**(5.8)**

8. General County Fund Balance

The balance of the fund as at 31 March 2014, £23.7m (2012/13 £27.8m), contains the following earmarked sums:

	2012/13 £m	2013/14 £m
Delegated Funding for Schools	8.4	8.1
Carry forward of underspendings across other services	8.6	4.7
Carry forward of resources for funding of Capital	0.1	0.1
Earmarked Reserves as at 31 March	**17.1**	**12.9**
Uncommitted balance	10.7	10.8
Balance at 31 March	**27.8**	**23.7**

9. Movement in Earmarked Revenue Reserves

	Balance at 31 March 2012 £m	Transfers From Revenue £m	Transfers To Revenue £m	Balance at 31 March 2013 £m	Transfers From Revenue £m	Transfers To Revenue £m	Balance at 31 March 2014 £m
Insurance	14.1	0.2	(2.9)	11.4	3.5	0.0	14.9
Renewals of Vehicles & Equipment	8.8	0.3	(1.6)	7.5	1.8	(4.4)	4.9
Adult & Social Care Developments	8.0	0.3	(2.1)	6.2	3.0	(4.3)	4.9
PCT/Public Health in Leicestershire	3.9	2.9	(1.3)	5.5	3.3	(0.1)	8.7
PCT Initiatives	1.5	0.0	(1.5)	0.0	0.0	0.0	0.0
Heath & Social Care Outcomes (PCT Monies)	8.7	2.2	(0.5)	10.4	0.5	(3.0)	7.9
Housing Related Support	1.8	0.0	(1.1)	0.7	0.0	(0.2)	0.5
Supporting Leicestershire Families	4.0	5.4	(1.0)	8.4	0.0	(3.1)	5.3
East Midlands Council	0.7	0.2	(0.3)	0.6	0.9	(0.4)	1.1
Central Maintenance Fund	1.4	0.0	(0.2)	1.2	0.4	0.0	1.6
Change Management							
- Organisational Change	1.7	0.0	0.0	1.7	0.2	(0.7)	1.2
- Invest to Save/Severance	22.3	4.9	(15.6)	11.6	10.8	(7.5)	14.9
Children and Young People							
- Area Special School	2.0	0.0	0.0	2.0	0.0	(2.0)	0.0
-Transitional Grant Aided Fund	3.5	0.0	0.0	3.5	0.0	(0.3)	3.2
Highways & Waste Management							
- Waste Strategy Implementation	5.2	0.0	(0.8)	4.4	1.0	(3.8)	1.6
- Commuted Sums	1.5	0.1	0.0	1.6	0.7	0.0	2.3
- Integrated Traffic Management	0.0	0.0	0.0	0.0	1.5	0.0	1.5
Shared Services	2.3	0.0	(0.9)	1.4	0.0	0.0	1.4
Community Planning	2.7	0.5	(2.0)	1.2	0.1	(0.3)	1.0
LCC Mortgage Scheme	2.0	1.1	(3.1)	0.0	0.0	0.0	0.0
Loughborough Science Park	0.0	0.0	0.0	0.0	1.2	0.0	1.2
Broadband	0.0	6.0	0.0	6.0	0.3	0.0	6.3
Economic Development	0.0	3.2	0.0	3.2	0.0	(0.4)	2.8
Other (reserves below £1m)	14.7	2.9	(6.2)	11.4	3.8	(5.3)	9.9
Sub-Total	**110.8**	**30.2**	**(41.1)**	**99.9**	**33.0**	**(35.8)**	**97.1**
Children and Young People's Service – Dedicated Schools Grant	1.8	5.4	(0.6)	6.6	3.8	(0.8)	9.6
TOTAL	**112.6**	**35.6**	**(41.7)**	**106.5**	**36.8**	**(36.6)**	**106.7**

Details of the Main Earmarked Reserves

Insurance
The insurance policies held by the Authority require a significant level of self insurance, the level of this being recommended by independent advisers. The monies set aside for self insurance are split between a provision representing outstanding, unsettled claims at 31 March 2014 and a reserve to meet future claims.

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

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

PCT/ Health & Social Care Outcomes
Funding from the primary care trust relating to joint public health initiatives within Leicestershire.

Supporting Leicestershire Families
This funding has been earmarked to fund both the programme team and the new services under the supporting Leicestershire's Families programme (formerly known as Troubled Families).

Organisational Change / Invest to Save / Severance
A programme of projects to deliver efficiency savings and service improvements across the Authority and to fund potential restructuring costs of reconfiguring those services.

Children & Young People's Service - Dedicated Schools Grant
Dedicated schools grant ring fenced for schools. Finance to ease the impact of significant reductions in government grants.

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

Local Authority Mortgage Scheme
New reserve established to make it easier for first time buyers to obtain mortgages to stimulate the local housing market and benefit the wider local economy.

Broadband
The Council Tax freeze grant for 2012/13 was approved to be set aside to develop super-fast broadband to areas with poor service.

Economic Development
Funding earmarked for economic development proposals.

10. *Other Operating Expenditure*

	2012/13 £m	2013/14 £m
Flood Defence Levies	0.3	0.3
(Gains)/losses on the disposal of non-current assets (Excluding Academies)	0.0	0.0
(Gains)/losses on the disposal of Academies	181.1	54.2
Total	**181.4**	**54.5**

11. *Financing and Investment Income and Expenditure*

	2012/13 £m	2013/14 £m
Interest payable and similar charges	16.9	16.5
Pensions interest cost and expected return on pensions assets	19.8	22.2
Interest receivable and similar income	(4.5)	(3.8)
Other investment income (surplus or deficit on Trading Accounts)	(0.3)	0.0
Total	**31.9**	**34.9**

12. *Taxation and non specific grant incomes*

	2012/13 £m	2013/14 £m
Council tax income	(241.0)	(222.5)
Non domestic rates	(102.4)	(54.5)
Non ringfenced government grants	(10.4)	(93.4)
Capital grants and contributions	(38.9)	(43.1)
Total	**(392.7)**	**(413.5)**

13. Pensions- Revenue Costs

a) Local Government Pension Scheme – A defined benefit scheme

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

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

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

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

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

The IAS 19 balance sheet position as at 31st March 2014 has deteriorated since last year principally because financial assumptions as at 31st March 2014 are less favourable than they were at 31st March 2013. The main reason is due to a lower discount rate used to value pension fund benefits due to a change in the methodology used to determine the rate. All else being equal this serves to increase the value of the liabilities and have a negative impact on the IAS 19 position. This was somewhat mitigated by investment returns being higher than expected which has had a positive impact on the actual value of the Authority's pension assets. Overall the net liability on the fund has increased to £603.3m (31 March 2013, £497.6m).

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

	2012/13 £m	2013/14 £m
Comprehensive Income and Expenditure Statement		
Cost of Services		
Service cost comprising		
Current service cost	28.8	32.4
Past service costs	3.0	0.9
Settlements and Curtailments	(39.9)	(7.8)
Financing and Investment Income and Expenditure		
Net Interest expense	19.8	22.2
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	11.7	47.7
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined benefit liability comprising:		
Return on planned assets (excluding the amount included in the net interest expense)	(61.0)	(9.9)
Actuarial gains/losses arising from changes in demographic assumptions	0.0	27.7
Actuarial gains/losses arising from changes in financial assumptions	142.7	37.6
Other	(2.9)	31.7
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**90.5**	**134.8**
Movements in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with IAS 19	**19.9**	**18.6**
Actual amount charged against the County Fund Balance for Pensions in the year		
Employers contributions payable to scheme	28.7	26.0
Unfunded benefits	3.0	3.1
Total amount charged against the County Fund Balance for Pensions in the year	**31.7**	**29.1**

The cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure in the actuarial gains or losses on pension assets and liabilities line at 31 March 2014 was a loss of £603.3m and at 31 March 2013 was a loss of £497.6m.

b) *Pension Assets and Liabilities in Relation to Post-employment Benefits*

The present value of the liabilities (defined benefit obligation) of the Authority at 31 March is as follows:

	2012/13 £m	2013/14 £m
As at 1 April	**(1,219.1)**	**(1,343.1)**
Current service cost	(28.8)	(32.4)
Interest Cost	(56.3)	(59.8)
Contributions by scheme participants	(9.8)	(8.8)
Remeasurement (gains) and losses:		
Changes in demographic assumptions	0.0	(27.7)
Changes in financial assumptions	(142.7)	(37.6)
Other	0.6	(33.0)
Past service costs		
(Losses) / Gains on curtailments	(3.0)	(0.9)
Benefits paid	45.8	49.2
Liabilities extinguished on settlements	70.2	14.6
As at 31 March	**(1,343.1)**	**(1,479.5)**

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

	2012/13 £m	2013/14 £m
As at 1 April	**780.3**	**845.5**
Interest Income	36.5	37.6
Remeasurement gain/(loss):		
Return on plan assets	61.0	9.9
Employer contributions	30.8	27.2
Contributions by scheme participants	9.8	8.8
Benefits paid	(45.8)	(49.2)
Contributions in respect of unfunded benefits	3.2	3.2
(Losses) / Gains on settlements	(30.3)	(6.8)
As at 31 March	**845.5**	**876.2**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Local Government Pension Scheme assets comprised:

	2012/13		2013/14	
	£m	% of total assets	£m	% of total assets
Equity Securities:				
Other	31.1	4%	32.2	4%
Debt Securities:				
UK Government	10.5	1%	10.8	1%
Other	60.5	7%	62.6	7%
Private Equity	33.2	4%	34.4	4%
Real Estate:				
UK Property	79.0	9%	81.9	9%
Investment Funds and Unit Trusts:				
Equities	426.2	51%	441.7	51%
Bonds	55.6	7%	57.7	7%
Hedge Funds	28.9	3%	29.9	3%
Commodities	38.3	5%	39.7	5%
Infrastructure	19.2	2%	19.9	2%
Other	43.8	5%	45.5	5%
Cash and Cash Equivalents	19.2	2%	19.9	2%
As at 31 March	**845.5**	**100%**	**876.2**	**100%**

The scheme history of the pension fund is as follows:

	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Present value of liabilities:	(1,427.6)	(1,110.6)	(1,219.1)	(1,343.1)	(1,479.5)
Fair value of assets:	773.3	780.5	780.3	845.5	876.2
Surplus / (Deficit)	**(654.3)**	**(330.1)**	**(438.8)**	**(497.6)**	**(603.3)**

The liability shows the underlying commitment that the Authority has in the long run to pay post employment (retirement) benefits. This total liability of £603.3m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit will result in the deficit being made good by increased contributions by the employer, over the remaining working life of employees, as assessed by the actuary.

The figures in this note incorporate staff of the Eastern Shires Purchasing Organisation (ESPO) whose staff are employed by Leicestershire Authority but whose costs are excluded from these accounts as these costs are included in ESPO's own accounts.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. The Authority's Pension fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the County Council fund being based on the latest full valuation of the Pension Fund as at 31st March 2013.

The principal assumptions used by the actuary have been:

	31 March 2013	**31 March 2014**
Mortality assumptions (in years):		
Longevity at 65 for current pensioners:		
▪ Men	20.9	22.2
▪ Women	23.3	24.2
Longevity at 65 for future pensioners:		
▪ Men	23.3	24.3
▪ Women	25.6	26.6
Rate of inflation	2.8%	2.8%
Rate of increases in salaries	5.1%	4.6%
Rate of increase in pensions	2.8%	2.8%
Rate for discounting scheme liabilities	4.5%	4.3%
Proportion of employees opting to commute part of their annual pension to a retirement lump sum:		
Pre April 2008 Service	50.0%	50.0%
Post April 2008 Service	75.0%	75.0%

The estimation of the defined benefit obligations is sensitive to actual assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, on an actuarial basis, using the projected credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in previous years.

Sensitivities regarding the principal assumptions used to measure the scheme liabilities at 31 March 2014:

	Approximate % Increase in Employer Liability	Approximate monetary amount (£m
0.5% decrease in Real Discount Rate	9%	138.5
1 year increase in member life expectancy	3%	44.4
0.5% increase in the Salary Increase Rate	3%	40.1
0.5% increase in the Pension Increase Rate	7%	96.5

The impact of a change, either from increase to decrease or vice versa, would be as above but with the values being reversed.

Pension Fund Risk Management Strategy

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

These investment risks are managed as part of the overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Management Board and is monitored annually or more frequently if required.

Further details can be found within note 20 of the Pension Fund Statement of Accounts, included at the end of this document.

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Authority has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The last triennial valuation was completed on 31 March 2013.

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

The authority anticipated to pay £28.1m expected contributions to the scheme in 2014/15.

The weighted average duration of the defined benefit obligation for scheme members is 17.8 years, 2013/14 (17.8 years 2012/13).

c) Teachers and Lecturers

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement. The Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by Local Authorities. The Authority is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2013/14 the Authority paid £10.2m (2012/13 £16.3m) to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 14.1% (2012/13 14.1%) of teachers' pensionable pay. This is also the amount recognised as an expense in the Comprehensive Income and Expenditure Statement with regards to this scheme. In addition, the Authority is responsible for all pension payments relating to pension enhancements for added years service it has awarded, together with the related increases. In 2013/14 these amounted to £2.1m (2012/13 £2.1m), representing 2.87% (2012/13 1.79%) of pensionable pay.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in note 13b.

d) Public Health

Public Health staff who transferred to the Authority with effect from 1 April 2013 are, and will continue to be, members of the NHS pension scheme administered by NHS Pensions. Any new employees to the Authority since this transfer will be in the Local Government Pension Scheme (LGPS), administered locally by Leicestershire County Council.

The NHS pension scheme provides public health staff with specified benefits upon their retirement. The Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. However, the arrangements for NHS schemes mean that liabilities of these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if they are a defined contribution scheme and no liability for future payments of benefits is recognised in the balance sheet.

In 2013/14 the Authority paid £0.1m to the NHS pension scheme in respect of public health staff. This amount is recognised as an expense in the CIES under the Public Health services line.

14. *Movements in Property, Plant and Equipment, Intangible Assets and Assets Held for Sale*

	Land and Buildings £m	Vehicles Plant, Furniture & Equipment £m	Infrastructure £m	Community Assets £m	Assets Under Construction £m	Surplus Assets £m	Total £m	Intangible Assets (Software Licences) £m	Assets Held for Sale £m
Net book value as at 31 March 2013	**471.8**	**5.8**	**272.1**	**11.7**	**4.3**	**4.0**	**769.7**	**0.8**	**0.4**
Additions	20.2	2.7	38.9	0.0	1.1	0.0	62.9	1.1	0.0
Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve	72.8	0.0	0.0	(0.1)	0.0	(0.5)	72.2	0.0	0.0
Derecognition-Disposals	(65.7)	0.0	0.0	0.0	0.0	(0.6)	(66.3)		(0.3)
Transfers between asset categories	(1.1)	0.0	0.0	0.0	(4.3)	5.4	0.0	0.0	0.0
Capital expenditure not increasing value	(5.7)	(0.4)	0.0	0.0	0.0	0.0	(6.1)	(0.1)	0.0
Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit on the Provision of Services	(15.5)	0.0	0.0	(0.3)	0.0	(1.5)	(17.3)	0.0	0.0
Book value as at 31 March 2014	**476.8**	**8.1**	**311.0**	**11.3**	**1.1**	**6.8**	**815.1**	**1.8**	**0.1**
Less: Depreciation this year									
Depreciation written out to the Revaluation Reserve	(4.7)	0.0	0.0	0.0	0.0	0.0	(4.7)	0.0	0.0
Depreciation / Amortisation written out to the Surplus/ Deficit on the Provision of Services	(6.8)	(1.1)	(8.4)	0.0	0.0	0.0	(16.3)	(0.2)	0.0
Less: Writing down leased assets	(0.1)	0.0	0.0	0.0	0.0	0.0	(0.1)	0.0	0.0
Net book value as at 31 March 2014	**465.2**	**7.0**	**302.6**	**11.3**	**1.1**	**6.8**	**794.0**	**1.6**	**0.1**

	Land and Buildings £m	Vehicles Plant, Furniture & Equipment £m	Infrastructure £m	Community Assets £m	Assets Under Construction £m	Surplus Assets £m	Total £m	Intangible Assets (Software Licences) £m	Assets Held for Sale £m
Net book value as at 31 March 2012	**656.3**	**4.2**	**259.9**	**11.7**	**6.9**	**4.3**	**943.3**	**0.6**	**0.3**
Additions	22.9	4.3	20.1	0.0	2.7	0.0	50.0	0.5	0.0
Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve	15.3	0.0	0.0	0.1	0.0	(0.3)	15.1	0.0	0.0
Derecognition-Disposals	(184.7)	0.0	0.0	0.0	0.0	(1.7)	(186.4)	0.0	(0.3)
Transfers between asset categories	3.1	0.0	0.0	0.0	(5.3)	1.8	(0.4)	0.0	0.4
Capital expenditure not increasing value	(10.0)	(1.7)	0.0	0.0	0.0	0.0	(11.7)	0.0	0.0
Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit on the Provision of Services	(16.1)	0.0	0.0	(0.1)	0.0	(0.1)	(16.3)	0.0	0.0
Book value as at 31 March 2013	**486.8**	**6.8**	**280.0**	**11.7**	**4.3**	**4.0**	**793.6**	**1.1**	**0.4**
Less: Depreciation this year Depreciation written out to the Revaluation Reserve	(4.0)	0.0	0.0	0.0	0.0	0.0	(4.0)	0.0	0.0
Depreciation / Amortisation written out to the Surplus/ Deficit on the Provision of Services	(10.9)	(1.0)	(7.9)	0.0	0.0	0.0	(19.8)	(0.3)	0.0
Less: Writing down leased assets	(0.1)	0.0	0.0	0.0	0.0	0.0	(0.1)	0.0	0.0
Net book value as at 31 March 2013	**471.8**	**5.8**	**272.1**	**11.7**	**4.3**	**4.0**	**769.7**	**0.8**	**0.4**

Depreciation/Amortisation

Where depreciation/amortisation is provided for, assets are depreciated/amortised 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, new builds are usually estimated to have a useful life of 70 years).
- Infrastructure - 40 years.
- Vehicles, plant, furniture and equipment - estimated useful life (averaging around 5 years).
- Land, community assets, assets under construction, surplus assets and assets held for sale – are held at cost or market value or have an indefinite life and are not depreciated.

Capital commitments

At 31 March 2014, the Authority has entered into a number of contracts for the acquisition, construction or enhancement of Property, Plant and Equipment in 2014/15 and future years budgeted to cost £15.1m, (similar commitments at 31 March 2013 were £31.1m).

Major contracts, include:

	£m
New M1 Bridge - Lubbesthorpe	8.1
Loughborough Town Centre – major infrastructure works	5.4
Refurbishment of former fire services headquarters	0.8

Academies, Foundation, Trust, Church and Other schools

Foundation and Trust schools remain vested in the Governing Bodies of the individual Schools. Schools which have converted to Academies have taken the assets on 125 year finance leases. Foundation, Trust schools and Academies have not been included in the Balance Sheet, and therefore no capital charges will have been applied to the accounts. The following table shows the number and valuation as at 31 March of Foundation, Trust schools and Academies.

	2012/13		2013/14	
	31 March Number	31 March £m	31 March Number	31 March £m
Foundation schools	3	19.3	3	19.3
Trust schools	3	31.3	3	31.3
Academies	97	265.2	122	319.4
Total	103	315.8	128	370.0

Church and Other schools, which are not owned by the Authority, are treated on the same basis as Foundation and Trust schools, i.e. have not been included in the Balance Sheet, and therefore no capital charges will have been applied to the accounts.

Revaluations

The Authority carries out a rolling programme that ensure that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations are carried out by our internally RICS qualified valuers. Accounting Policy 6 within Note 49 to the accounts provides further details.

	Land and Buildings £m	Surplus Assets £m	Total £m
Carried at Historical Cost	25.1	0.0	25.1
Valued at fair value as at:			
31 March 2014	391.0	0.8	391.8
31 March 2013	21.8	0.1	21.9
31 March 2012	17.3	0.8	18.1
31 March 2011	4.9	2.5	7.4
31 March 2010	5.1	2.6	7.7
Total Cost or Valuation	**465.2**	**6.8**	**472.0**

15. Movements in Heritage Assets

	Art Collection £m	Archaeo-logical Collection £m	Fashion Collection £m	Working Life Collection £m	Civic Collection £m	Total £m
Net book value as at 31 March 2012	**2.9**	**0.4**	**0.1**	**0.6**	**0.2**	**4.2**
Additions	0.0	0.0	0.0	0.4	0.0	**0.4**
Disposals	0.0	0.0	0.0	0.0	0.0	**0.0**
Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve	0.0	0.0	0.0	0.0	0.0	**0.0**
Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit on the Provision of Services	0.0	0.0	0.0	0.0	0.0	**0.0**
Capital expenditure not increasing value	0.0	0.0	0.0	(0.2)	0.0	**(0.2)**
Depreciation	0.0	0.0	0.0	0.0	0.0	**0.0**
Net Book value as at 31 March 2013	**2.9**	**0.4**	**0.1**	**0.8**	**0.2**	**4.4**
Additions	0.0	0.0	0.0	1.4	0.0	**1.4**
Disposals	0.0	0.0	0.0	0.0	0.0	**0.0**
Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve	0.0	0.0	0.0	0.0	0.0	**0.0**
Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit on the Provision of Services	0.0	0.0	0.0	0.0	0.0	**0.0**
Capital expenditure not increasing value	0.0	0.0	0.0	(1.4)	0.0	**(1.4)**
Depreciation	0.0	0.0	0.0	0.0	0.0	**0.0**
Net Book value as at 31 March 2014	**2.9**	**0.4**	**0.1**	**0.8**	**0.2**	**4.4**

As per the accounting policy for Heritage Assets within note 49 assets and additions are recognised at cost and are revalued based on 50% of the insurance valuations. There have been no material additions and no disposals since 2007. Due to this, a summary of the movements in Heritage Assets would show no movements. Where disposals occur, sale proceeds will be accounted for in accordance with statutory requirements for the sale of non-current assets as these assets would meet the definition of a capital receipt.

16. *Financial Instruments*

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

	Long Term	Current	Long Term	Current
	31 March 2013 £m	**31 March 2013 £m**	**31 March 2014 £m**	**31 March 2014 £m**
Financial Liabilities: (Borrowings)				
at Amortised Cost	233.6	16.2	225.9	12.4
at Fair Value	63.0	0.0	63.0	0.0
Total Borrowings	**296.6**	**16.2**	**288.9**	**12.4**
Financial Assets: (Investments)				
at Amortised Cost	0.0	64.3	0.0	103.5
at Fair Value	0.0	0.0	0.0	0.0
Total Investments	**0.0**	**64.3**	**0.0**	**103.5**
Debtors:				
Loans and Receivables	51.6	0.0	54.8	0.0
Financial Assets carried at contract amounts	0.0	73.2	0.0	72.7
Total Debtors	**51.6**	**73.2**	**54.8**	**72.7**
Total Financial Liabilities carried at contract amount	**5.0**	**95.8**	**8.8**	**96.1**
Total Finance Lease Liabilities	**1.6**	**0.1**	**1.5**	**0.1**
Total Cash and Cash Equivalents	**0.0**	**81.3**	**0.0**	**53.1**

Gains and Losses recognised in the Comprehensive Income and Expenditure Statement:

	2012/13		2013/14	
	At Amortised Cost £m	At Fair Value £m	At Amortised Cost £m	At Fair Value £m
Financial Liabilities				
Interest Paid	14.0	2.7	13.6	2.7

	2012/13		2013/14	
	Loans and Receivables £m	At Fair Value £m	Loans and Receivables £m	At Fair Value £m
Financial Assets				
Interest Received	2.2	0.0	1.6	0.0

Fair Value of Assets and Liabilities carried at Amortised Cost

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

- PWLB and Market debt; estimated interest rates at 31 March 2014 for new debt with the same maturity date from comparable lenders.
- Investments; long term – estimated interest rates at 31 March 2014 for equivalent loans.
- Investments; short term – carrying amounts in the Balance Sheet approximate to fair value.

The fair values calculated are as follows:

	31st March 2014	
	Carrying Amount £m	At Fair Value £m
Financial Liabilities	301.3	369.0
Financial Assets	149.6	158.2

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

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

17. Inventories

	31 March 2013 £m	31 March 2014 £m
Inventories:		
Highways	0.5	0.8
Children & Young People's Service	0.2	0.0
Other Services	0.2	0.5
Sub Total	**0.9**	**1.3**
Work in Progress:		
Highways	0.0	0.0
Total	**0.9**	**1.3**

18. Investments

Surplus cash balances are mainly invested in short term deposits with a range of banks and other financial institutions.

19. Long-Term Debtors

	31 March 2013 £m	31 March 2014 £m
Long Term Debtors (amounts falling due after one year)		
Outstanding debt relating to transferred services (e.g. Unitary Authority, Higher Education establishments, Police, ESPO)	40.5	38.3
Accommodation Charges at Elderly Persons Homes	3.6	3.1
Local Authority Mortgage Scheme	5.4	8.4
Other Long Term Debtors	2.1	5.0
Total	**51.6**	**54.8**

20. Short-Term Debtors

Short – Term Debtors	31 March 2013			31 March 2014		
	Debtors £m	Payments in Advance £m	Total £m	Debtors £m	Payments in Advance £m	Total £m
Central Government Bodies	12.1	0.0	12.1	14.8	0.0	14.8
Other Local Authorities	14.5	0.1	14.6	9.3	0.2	9.5
NHS Bodies	0.3	0.0	0.3	0.8	0.0	0.8
Public Corporations and Trading Funds	0.2	0.0	0.2	0.3	0.0	0.3
Other Entities and Individuals	37.3	8.7	46.0	35.6	11.7	47.3
Total	**64.4**	**8.8**	**73.2**	**60.8**	**11.9**	**72.7**

21. Cash and Cash Equivalents

	31 March 2013 £m	31 March 2014 £m
Net Cash Balance at Year End:		
School & Imprest Accounts	1.3	1.3
Main Bank Accounts	(1.4)	5.7
Short-Term Deposits with Banks and Building Societies	81.4	46.1
Cash and Cash Equivalents	**81.3**	**53.1**

These figures include uninvested cash held on behalf of residents in Care Homes £6.7m (2012/13 £1.4m).

22. Short-Term Creditors

Short – Term Creditors	31 March 2013			31 March 2014		
	Creditors £m	Receipts in Advance £m	Total £m	Creditors £m	Receipts in Advance £m	Total £m
Central Government Bodies	21.6	0.2	21.8	13.9	0.2	14.1
Other Local Authorities	10.9	0.9	11.8	5.3	1.4	6.7
NHS Bodies	0.2	0.1	0.3	2.1	0.0	2.1
Public Corporations and Trading Funds	0.2	0.2	0.4	0.4	0.1	0.5
Other Entities and Individuals	49.9	9.4	59.3	63.8	8.8	72.6
Total	**82.8**	**10.8**	**93.6**	**85.5**	**10.5**	**96.0**

23. Provisions

Short Term	Balance at 31 March 2013	Additional provisions during the year	Amounts used during the year	Balance at 31 March 2014
	£m	£m	£m	£m
Insurance:				
Fire	0.1	0.1	-0.1	0.1
Public/Employers Liability	0.6	0.0	-0.3	0.3
Uninsured Losses	2.2	0.0	-2.2	0.0
	2.9	**0.1**	**-2.6**	**0.4**
Redundancy Provision	0.3	0.3	-0.3	0.3
Leased Car Provision	0.0	0.3	-0.3	0.0
CRC Liability	0.6	0.6	-0.6	0.6
Property Maintenance	0.0	3.0	-3.0	0.0
Other	0.6	1.0	-0.1	1.5
	1.5	**5.2**	**-4.3**	**2.4**
Total Short Term	**4.4**	**5.3**	**-6.9**	**2.8**

Long Term	Balance at 31 March 2013	Additional provisions during the year	Amounts used during the year	Balance at 31 March 2014
	£m	£m	£m	£m
Insurance:				
Fire	0.2	0.1	-0.2	0.1
Public/Employers Liability	7.8	1.7	-3.3	6.2
LMS Insurance Provision	0.1	0.2	-0.3	0.0
	8.1	**2.0**	**-3.8**	**6.3**
A&C Mental Health Refunds	0.5	0.0	0.0	0.5
Leased Car Provision	0.1	0.5	-0.5	0.1
	0.6	**0.5**	**-0.5**	**0.6**
Total Long Term	**8.7**	**2.5**	**-4.3**	**6.9**
Total Short and Long Term Provisions	**13.1**	**7.8**	**-11.2**	**9.7**

Details of Provisions Held

Insurance
The insurance policies held by the Authority require a significant level of self insurance, the level of this being recommended by independent advisers. The monies set aside for self insurance are split between a provision representing outstanding, unsettled claims at 31 March 2014 and a reserve to meet future claims. The provision is expected to be used within the next seven years.

Leased Car Provision
Sum to match the difference between the termination costs and the sale proceeds at the end of the lease period.

Adults & Communities 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.

Redundancy Provision
Provides for the termination costs of employees where the Authority is demonstrably committed as at 31 March 2014 where the timing or amounts are uncertain.

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

24. *Reconciliation of the Surplus on the Comprehensive Income and Expenditure Statement to Revenue Activities Cash Flow*

	2012/13 £m		2013/14 £m	
Non cash transactions:				
Movement on provisions	0.2		3.4	
Movement on pensions (IAS 19)	19.9		(18.6)	
Depreciation of fixed assets and impairment	(52.4)		(46.1)	
Gain or Loss on disposal of non-current assets (Incl Academies)	(181.1)		(54.2)	
Movement on Financial Instruments Adjustment Account	0.1		0.2	
		(213.3)		(115.3)
Revenue items on an accruals basis:				
Change in creditors	14.0		(2.8)	
Change in debtors	0.4		7.0	
Change in long term debtors	3.6		3.2	
Change in Inventories	(0.5)		0.4	
		17.5		7.8
Total adjustments to net surplus or deficit on the provision of services on non cash movements:		**(195.8)**		**(107.5)**
Items classified elsewhere in the statement:				
Movement in Accrued Interest	0.1		(0.3)	
Servicing of finance	(12.4)		(12.6)	
Movement on the Collection Fund Adjustment Account	(0.2)		1.4	
Capital Grants Received	37.4		43.1	
Total adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		**24.9**		**31.6**

25. Cash Flow Statement - Operating Activities

	2012/13 £m	2013/14 £m
Interest received	(4.5)	(3.8)
Interest Paid	17.1	16.7
Net Cash Flows from Operating Activities	**12.6**	**12.9**

26. Cash Flow Statement - Investing Activities

	2012/13 £m	2013/14 £m
Purchase of property, plant and equipment, investment property and intangible assets	53.4	56.4
Purchase of short-term and long-term investments	0.0	39.2
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5.6)	(12.4)
Proceeds from short-term and long-term investments	(19.8)	0.0
Capital Grants and Contributions	(37.4)	(43.1)
Other receipts from investing activities	0.1	(1.3)
Net Cash Flows from Investing Activities	**(9.3)**	**38.8**

27. Cash Flow Statement - Financing Activities

	2012/13 £m	2013/14 £m
Cash receipts of short-term and long-term borrowing	0.0	(1.1)
Repayments of short-term and long-term borrowing	12.5	12.5
Net Cash Flows from Financing Activities	**12.5**	**11.4**

28. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement (CIES) is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across departments. These reports are prepared on a different basis from the accounting policies used for the financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement).
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.
- Expenditure on some support services is budgeted for centrally and not charged to departments.

Income & Expenditure 2013/14

	2013/14						
	CYPS £m	**A&C £m**	**E&T £m**	**Public Health £m**	**Corporate Resources £m**	**Chief Executives £m**	**Total £m**
Fees, Charges and Other Service Income	(22.5)	(70.0)	(32.0)	(1.9)	(21.4)	(7.0)	**(154.8)**
Grants	(216.3)	(5.1)	(2.8)	(20.3)	(0.5)	(3.1)	**(248.1)**
Total Income	**(238.8)**	**(75.1)**	**(34.8)**	**(22.2)**	**(21.9)**	**(10.1)**	**(402.9)**
Employee Expenses	165.1	49.0	20.0	2.4	39.1	14.1	**289.7**
Other Operating Expenses	132.1	163.4	96.6	20.0	16.5	10.7	**439.3**
Support Service Recharges	25.6	20.5	(11.9)	0.6	(33.1)	(1.7)	**0.0**
Total Expenses	**322.8**	**232.9**	**104.7**	**23.0**	**22.5**	**23.1**	**729.0**
Net Cost of Services	**84.0**	**157.8**	**69.9**	**0.8**	**0.6**	**13.0**	**326.1**

Income & Expenditure 2012/13 Comparative Figures

	2012/13					
	CYPS £m	**A&C £m**	**E&T £m**	**Corporate Resources £m**	**Chief Executives' £m**	**Total £m**
Fees, Charges and Other Service Income	(36.3)	(65.3)	(26.3)	(22.0)	(13.0)	**(162.9)**
Grants	(314.3)	(16.5)	(2.3)	(0.2)	(3.1)	**(336.4)**
Total Income	**(350.6)**	**(81.8)**	**(28.6)**	**(22.2)**	**(16.1)**	**(499.3)**

Employee Expenses	223.9	49.8	20.1	40.9	13.2	**347.9**
Other Operating Expenses	176.9	152.8	88.5	16.2	18.0	**452.4**
Support Service Recharges	24.9	19.0	(11.6)	(31.7)	(0.6)	**0.0**
Total Expenses	**425.7**	**221.6**	**97.0**	**25.4**	**30.6**	**800.3**
Net Cost of Services	**75.1**	**139.8**	**68.4**	**3.2**	**14.5**	**301.0**

Key	
CYPS	Children and Young People's Department
A&C	Adults and Communities Department
E&T	Environment and Transport Department

The Income and Expenditure tables above show the Authority's Income and Expenditure by Service area as reported to Cabinet.

Reconciliation of Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement (CIES)

This reconciliation shows how the figures in the analysis of income and expenditure relate to the amounts included in the Comprehensive Income Statement.

2012/13 £m		2013/14 £m
301.0	Net Cost of Services in the Service Analysis	326.1
0.0	Net Expenditure of Services Not Included in the Main Analysis	0.0
7.5	Amounts in the Comprehensive Income and Expenditure Statement Not Reported in Service Management Accounts	41.9
(6.4)	Amounts Reported to Management Not Included in the Comprehensive Income and Expenditure Statement	(2.9)
302.1	**Net Cost of Services in Comprehensive Income and Expenditure Statement**	**365.1**

- ***Reconciliation to Subjective Analysis 2013/14***

	Service Analysis £m	Not Reported in Management Accounts £m	Not Included in CIES £m	Net Cost of Services (Sub-Total) £m	Corporate Accounts £m	Total £m
Fees, Charges & Other Service Income	(154.8)	(12.1)	20.6	(146.3)	0.0	**(146.3)**
Profit or Loss on Disposal of Fixed Assets	0.0	0.0	0.0	0.0	0.0	**0.0**
Interest and Investment Income	0.0	0.0	0.0	0.0	(3.8)	**(3.8)**
Income from Council Tax	0.0	0.0	0.0	0.0	(222.5)	**(222.5)**
Government Grants	(248.1)	0.0	0.0	(248.1)	(191.0)	**(439.1)**
Total Income	**(402.9)**	**(12.1)**	**20.6**	**(394.4)**	**(417.3)**	**(811.7)**
Employee Expenses	289.7	1.0	0.0	290.7	0.0	**290.7**
Other Service Expenses	439.3	(2.8)	(12.2)	424.3	0.0	**424.3**
Profit or Loss on Disposal of Fixed Assets	0.0	0.0	0.0	0.0	54.2	**54.2**
Depreciation, Amortisation, Impairment and Capital Financing Charges	0.0	48.9	(11.3)	37.6	0.0	**37.6**
IAS 19 and Other Pension Cost Adjustments	0.0	7.9	0.0	7.9	22.2	**30.1**
Prior Year Adjustments	0.0	(1.0)	0.0	(1.0)	0.0	**(1.0)**
Interest Payments	0.0	0.0	0.0	0.0	16.5	**16.5**
Precepts & Levies	0.0	0.0	0.0	0.0	0.3	**0.3**
Surplus or Deficit on Trading Accounts	0.0	0.0	0.0	0.0	0.0	**0.0**
Total Operating Expenses	**729.0**	**54.0**	**(23.5)**	**759.5**	**93.2**	**852.7**
(Surplus)/Deficit on the Provision of Services	**326.1**	**41.9**	**(2.9)**	**365.1**	**(324.1)**	**41.0**

- ***Reconciliation to Subjective Analysis 2012/13 Comparison***

	Service Analysis £m	Not Reported in Management Accounts £m	Not Included in CIES £m	Net Cost of Services (Sub-Total) £m	Corporate Accounts £m	Total £m
Fees, Charges & Other Service Income	(162.9)	(41.3)	15.2	(189.0)	0.0	**(189.0)**
Profit or Loss on Disposal of Fixed Assets	0.0	0.0	0.0	0.0	181.1	**181.1**
Interest and Investment Income	0.0	0.0	0.0	0.0	(4.5)	**(4.5)**
Income from Council Tax	0.0	0.0	0.0	0.0	(241.0)	**(241.0)**
Government Grants	(336.4)	0.0	0.0	(336.4)	(151.7)	**(488.1)**
Total Income	**(499.3)**	**(41.3)**	**15.2**	**(525.4)**	**(216.1)**	**(741.5)**
Employee Expenses	347.9	0.9	0.0	348.8	0.0	**348.8**
Other Service Expenses	452.4	2.9	(15.4)	439.9	0.0	**439.9**
Depreciation, Amortisation, Impairment and Capital Financing Charges	0.0	53.4	(6.2)	47.2	0.0	**47.2**
IAS 19 and Other Pension Cost adjustments	0.0	(6.4)	0.0	(6.4)	19.8	**13.4**
Prior Year Adjustments	0.0	(2.0)	0.0	(2.0)	0.0	**(2.0)**
Interest Payments	0.0	0.0	0.0	0.0	16.9	**16.9**
Precepts & Levies	0.0	0.0	0.0	0.0	0.3	**0.3**
Surplus or Deficit on Trading Accounts	0.0	0.0	0.0	0.0	(0.3)	**(0.3)**
Total Operating Expenses	**800.3**	**48.8**	**(21.6)**	**827.5**	**36.7**	**864.2**
(Surplus)/Deficit on the Provision of Services	**301.0**	**7.5**	**(6.4)**	**302.1**	**(179.4)**	**122.7**

29. Trading Accounts

Operations

During the year the Authority operated three separate accounts, which undertake trading activities of a material nature.

a) Leicestershire Highways

Leicestershire Highways is a business unit of the Environment and Transport Department and its principal activities cover the maintenance and improvement of principal and county roads, the maintenance and erection of street lighting and the operation and maintenance of vehicles and plant.

b) County Catering

The Leicestershire County Catering Service provides a catering service to staff within County Hall.

c) Industrial Properties

Leicestershire Authority property services provide direct services to the local economy through the letting of industrial units to local businesses.

Income and Expenditure

	Leicester-shire Highways £m	County Catering £m	Industrial Properties £m	Total £m
Income	(25.9)	(0.8)	(1.7)	(28.4)
Expenditure	26.3	0.9	1.2	28.4
(Surplus)/Deficit in 2013/14	**0.4**	**0.1**	**(0.5)**	**0.0**
(Surplus)/Deficit in 2012/13	**(0.1)**	**0.2**	**(0.4)**	**(0.3)**

In order to satisfy the requirements of competition, recharges for all work done by a trading operation in competition with the private sector have been priced to include a cost of capital recovery. The IFRS Code of Practice does not permit charges for cost of capital to be debited to trading accounts. If the cost of capital had been charged to Leicestershire Highways the net position would have been a deficit of £0.6m (2012/13 breakeven).

The County Catering Service does not own any non-current assets, therefore their accounts remain as above, whilst Industrial Properties are charged with debt charges (based on financing costs of past capital expenditure).

30. *Pooled Budgets*

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

a) *Integrated Community Equipment Service.* The other members that contribute to this pool are Leicester City Council, Rutland County Council, NHS West Leicestershire Clinical Commissioning Group, NHS East Leicestershire and Rutland Clinical Commissioning Group and NHS Leicester City Clinical Commissioning Group. Leicester City Council acts as the host authority. The Authority contributed £1.3m (2012/13 £1.2m) to the pool. The draft memorandum account shows total expenditure of £7.0m (2012/13 £5.5m) and gross income of £7.0m (2012/13 £5.5m). Funding commenced in 2005/06 and the partners have a current agreement to run this service until 2014, with the option to extend for a further two years to 2016.

	2012/13 £m	2013/14 £m
Funding Provided to the Pooled Budget		
Leicestershire County Council	1.2	1.3
Clinical Commissioning Groups / Leicester City Council / Rutland County Council	4.3	5.7
Total	**5.5**	**7.0**
Expenditure Met from the Pooled Budget		
Leicestershire County Council	1.2	1.3
Clinical Commissioning Groups / Leicester City Council / Rutland County Council	4.3	5.7
Total	**5.5**	**7.0**
Net Position on the Pooled Budget	**0.0**	**0.0**

b) *The provision of services for adults with learning disabilities*. The other members that contribute to this pool are NHS West Leicester Clinical Commissioning Group and NHS East Leicestershire and Rutland Clinical Commissioning Group. The Authority acts as host to the arrangement. The Authority contributed £9.9m (2012/13 £8.3m) to the pool. The memorandum account shows total expenditure of £19.8m (2012/13 £17.1m) and gross income from the partners of £19.8m (2012/13 £16.6m). Any net over/underspend arising on the pooled budget is paid by/returned to the partners through revised contributions to the pool. Funding for this service commenced in 2005/06. The authorities have an agreement in place to renew funding these services on an annual basis.

	2012/13 £m	2013/14 £m
Funding Provided to the Pooled Budget		
Leicestershire County Council	8.3	9.9
Clinical Commissioning Groups	8.3	9.9
Total	**16.6**	**19.8**
Expenditure Met from the Pooled Budget		
Leicestershire County Council	8.6	9.9
Clinical Commissioning Groups	8.5	9.9
Total	**17.1**	**19.8**
Net Deficit Arising on the Pooled Budget	**0.5**	**0.0**

31. Members' Allowances

Amounts were paid to members of the Authority as follows:

	2012/13 £m	2013/14 £m
Basic Allowance	0.7	0.7
Special Responsibility Allowance	0.3	0.3
Other Expenses	0.1	0.1
Total	**1.1**	**1.1**

32. Related Party Transactions

Details of the total Government grants received are shown in Notes 12 and 37. The employers' contribution paid to the Pension Fund is shown in Note 13. Interests in consortia and other organisations are disclosed in Note 33. Details of the related party transactions with the Eastern Shires Purchasing Organisation (ESPO) are included within note 33.

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

Central Government

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

Grants received from government departments are set out in the analysis in Notes 12 and 28 on reporting for resource allocation decisions. Grant receipts outstanding at 31 March are shown in Note 37.

Members

Members of Leicestershire County Council have direct control over the council's financial and operating polices. The total of members' allowances paid in 2013/14 is shown in Note 31. During 2013/14, works and services to the value of £185,000 were commissioned from a company, in which one member had an interest. Contracts were entered into in full compliance with the Authority's standing orders.

Currently, the Authority has contracts with voluntary and community sector organisations to the value of £0.5m (2012/13, £0.8m), in which 7 members (2012/13, 11 members) have an interest. In addition, payments totalling less than £0.1m have been made during 2013/14 (2012/13, less than £0.1m) to organisations, in which one member has a position on the governing body (2012/13, 1 members). No such payments have been made to organisations whose senior management includes members of the families of members. In all instances, the payments were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the payments. Details of all these transactions are recorded in the *Register of Members' Interest*, which is available for public inspection at www.leics.gov.uk

Officers

There were no interests declared by senior officers of the Authority.

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

The Authority has two pooled budget arrangements with local health authorities for the supply of aids for daily living and the provision of services for adults with learning difficulties. Transactions and balances are detailed in Note 30.

Entities Controlled or Significantly Influenced by Leicestershire County Council

a) The County Council and Leicester City Council each own 50% of the company Leicester Shire Connexions Service Limited. The Director of Children and Family Services and Assistant Director of Strategic Finance and Property are Directors of Connexions. With effect from October 2012 Connexions ceased to provide services and the Authority made no contributions to the company during 2013/14.

   Leicester Shire Connexions Service Limited entered voluntary liquidation on 23 May 2014 on a solvent basis. After disbursement of company reserves to the company owner's cash reserves are held to meet any costs associated with the liquidation.

b) The Authority provides funding to Leicester Shire Promotions Limited (LPL) to provide tourism services in the County. A review of tourism started in 2011/12 concluded with the Authority deciding to carry out a competitive procurement process for the provision of tourism support services for three years from April 1st 2013, with provision included for a possible two year extension. That contract was won by Leicester Shire Promotions Limited.

The Authority made contributions of £0.2m to LPL during 2013/14 (2012/13 £0.3m). Income, debtor and creditor balances were all less than £0.1m during 2013/14 (2012/13 all less than £0.1m).

c) Leicester and Leicestershire Business Rates Pool

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

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

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

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

The Authority along with Leicester City Council, the LFRS and all Leicestershire District Councils agreed to operate a pooling agreement for business rates levies and safety net payments for 2013/14, the Leicester and Leicestershire Pool (LLP). The Authority was the lead authority for the LLP. The Pool was in a net top-up position, meaning that it could not be subject to a levy to the Government; a safety net position was technically feasible but given the scale of loss that would have to be suffered was unlikely to arise.

The Pool was based on a “no better, no worse” position, with District Councils paying any levies into the Pool and any safety net payments being made from the Pool. Any remaining net income from the Pool was to be used to provide a £0.4m contingency for future safety nets and any further income above that level was to be passed to the Leicester and Leicestershire Economic Partnership (LLEP).

Overall the Pool achieved a net surplus of £0.7m for 2013/14. The summary table is shown:

	Funding Baseline £m	Rates Baseline £m	Retained Rates £m	Levy £m	Safety Net £m
Blaby	1.9	15.2	15.0	0.0	0.1
Charnwood	3.8	17.2	16.6	0.0	0.3
Harborough	1.5	13.0	14.8	0.9	0.0
Hinckley & Bosworth	2.3	10.9	11.3	0.2	0.0
Melton	1.2	5.0	5.1	0.1	0.0
NW Leicestershire	2.1	18.3	18.2	0.0	0.0
Oadby & Wigston	1.3	4.7	4.6	0.0	0.1
Total	**14.1**	**84.3**	**85.6**	**1.2**	**0.5**
Net Gain					**0.7**

The surplus at the end of 2013/14 will be distributed in agreement with the LLP partners. The Authority's accounts include debtors for levies due from the Billing Authorities of £1.2m and creditors for safety net payments of £0.5m.

Additionally the Authority's accounts include a creditor of £0.6m for distribution of the surplus to the LLEP and Pool members per the Pooling agreement. The balance of the surplus, £0.1m, relates to the Authority's share and is included as income in the CIES.

Due to uncertainties over Government policy changes and the level of potential appeal losses, the LLP partners decided not to continue with the Pool in 2014/15 and to review the position again for 2015/16.

Concessionary Travel Fares Scheme

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

	2012/13 £m	2013/14 £m
Income	(9.0)	(9.2)
Expenditure	14.7	14.8
Net Cost	**5.7**	**5.6**

33. Interests in Consortia and other Organisations

a) Eastern Shires Purchasing Organisation (ESPO)

The Authority is a member of the Eastern Shires Purchasing Organisation involved in the negotiation of contracts for supplies to its members and the provision of a central warehouse for the supply of items in common use. During 2013/14 a net surplus of £1.2m (2012/13 £1.0m surplus) was reported on net service income of £19.3m (2012/13 £18.1m). Turnover between the Authority and ESPO totalled £3.8m (2012/13 £3.1m) in respect of stores issues and direct orders. The Authority had an outstanding creditor balance of £0.1m (2012/13 £0.0m) and an outstanding debtor balance of £0.2m as at 31 March 2014 (2012/13 £0.0m).

In 2005, the Authority entered into a 25 year borrowing arrangement of £12.5m on behalf of the constituent members of the consortium to finance the provision of a new warehouse and integrated offices. The loan outstanding as at 31 March 2014 is £8.3m (2012/13 £8.8m).

The Authority in effect owns approximately one seventh of ESPO assets and liabilities net £1.6m (2012/13 £1.4m). These are not included on the Authority's Balance Sheet. A copy of ESPO's statement of accounts is available from ESPO, Barnsdale Way, Grove Park, Enderby, Leicester. LE19 1ES.

b) Leicester, Leicestershire and Rutland Combined Fire Authority

The Authority is a constituent member of Leicester, Leicestershire and Rutland Combined Fire Authority. During 2013/14 the estimated turnover is £39.3m (2012/13 actual turnover £35.1m). The Authority received £0.4m of income during 2013/14 from Leicester, Leicestershire and Rutland Combined Fire Authority (2012/13 £0.4m). The Authority had an outstanding debtor balance of £0.1m as at 31 March 2014 (2012/13 £0.1m).

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

c) East Midlands Councils

East Midlands Councils (EMC) is one of eight regional assemblies in England outside London. It comprises of 52 Members who are representatives of the region's local authorities, fire, police and parish and town councils.

EMC's main roles and purposes are:

- A consultative forum for local government in the East Midlands.
- Represents the interest of local councils to national government and other organisations
- Enables local councils to work together on key issues of common concern
- Supports the improvement and development of local councils and their workforce
- Brings together political group leaders
- Makes appointments to national and regional bodies
- Provides a reporting and governance mechanism for regional local government Partnerships
- Establishes and maintains an effective relationship with the national Local Government Association (LGA)

For the period to 31 March 2014 the Authority was the servicing authority for EMC. The accounts for EMC are included with the CIES under the heading of Planning Services. With effect from 1 April 2014, Nottingham City Council became the servicing authority for EMC.

Income and Expenditure

	2012/13 £m	2013/14 £m
Income	(1.5)	(2.1)
Transfer (from) / to Reserve	(0.1)	0.6
Expenditure	1.6	1.5
(Surplus)/Deficit	**0.0**	**0.0**

Current Service pension costs under IAS 19 are less than £0.1m and are excluded from the expenditure above for both financial years.

d) East Midlands Shared Services

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

Operations relating to EMSS are carried out at both Authority and NCC premises. Leicestershire County Council (LCC) being the employing authority and NCC the host authority. In line with the partnership agreement the net expenditure is shared between the two authorities by allocating an equal share of the financial benefits (savings) accruing from the operation of EMSS. This has resulted in a share of costs for the Authority of 42.8%. EMSS does not separately own any assets or liabilities.

A summary of the income and expenditure of EMSS and the associated amounts included in Authority's accounts are shown below. The amounts shown for 2012/13 are part-year figures as EMSS began operation on 3rd September 2012.

EMSS	Total EMSS 2013/14 £m	Total EMSS 2012/13 £m	Amounts Included in LCC CIES 2013/14 £m	Amounts Included in LCC CIES 2012/13 £m
Income:				
Direct External Income	(1.8)	(1.1)	(1.2)	(0.7)
NCC Share of LCC Direct Costs	0.0	0.0	(2.6)	(1.8)
Total Income	(1.8)	(1.1)	(3.8)	(2.5)
Expenditure:				
Total EMSS Expenditure	5.7	3.5		
Direct costs incurred by LCC	0.0	0.0	5.3	3.5
Third party payments to NCC	0.0	0.0	0.2	0.1
Total Expenditure	**5.7**	**3.8**	**5.5**	**3.6**
Net Expenditure	**3.9**	**2.7**	**1.7**	**1.1**

34. Officers' Remuneration

a) Regulations require the Authority to disclose remuneration for all employees earning over £50,000, plus additional disclosure for those senior officers who report directly to the Chief Executive and have the power to direct or control the major activities of the Authority.

Post holder Information (Post title)	Salary	Compen-sation for loss of office	Benefits in kind	Total Remuneration Excl. Employers Pension Contribution	Employers Pension Contributions (N1)	Total Remuneration - including Employers Pension Contribution
	£000	£000	£000	£000	£000	£000
2013/14						
Chief Executive - John Sinnott	188	0	3	191	36	227
Director of Corporate Resources (N2)	144	0	2	146	126	272
Assistant Director Strategic Finance & Property - S151 Officer (N3)	8	0	0	8	1	9
Director of Children & Young People's Service	116	0	2	118	22	140
Director of Environment & Transport to June 2013 (N4)	32	0	0	32	6	38
Director of Environment & Transport to Sept-Mar 2014 (N5)	63	0	0	63	12	75
Director of Adults & Communities	128	0	0	128	24	152
County Solicitor / Monitoring Officer	119	0	0	119	23	142
Joint Director Public Health to Nov 2013 (N6)	55	0	0	55	0	55
Joint Director / Director Public Health (N7)	77	0	0	77	11	88
Executive Director (East Midlands Councils)	89	0	1	90	17	107
Total	**1,019**	**0**	**8**	**1,027**	**278**	**1,305**
2012/13						
Chief Executive - John Sinnott	187	0	3	190	35	225
Director of Corporate Resources	144	0	2	146	27	173
Director of Children & Young People's Service to Dec 2012 (N8)	96	37	3	136	96	232
Director Children & Young People's Service from Jan-Mar 2013 (N9)	29	0	0	29	5	34
Director of Environment & Transport (N10)	128	0	0	128	24	152
Director of Adults & Communities	128	0	2	130	24	154
County Solicitor / Monitoring Officer	116	0	0	116	22	138
Executive Director (East Midlands Councils)	89	0	1	90	16	106
Total	**917**	**37**	**11**	**965**	**249**	**1,214**

There were no payments made for bonuses, expense allowances or other payments.
N1 – Revised employer's pension contribution rates in 2013/14.
N2 – From the 1st March 2014, the Director transferred S151 responsibilities to the Assistant Director.
N3 – From the 1st March 2014, the Assistant Director took on S151 responsibility. The annualised salary is £98k
N4 – The Director left LCC in June 2013. The annualised salary for this post is £128k.
N5 – The Director joined LCC in September 2013. The annualised salary for the post is £116k.
N6 – Joint Director, 0.5 FTE for the period April to November 2013.
N7 – Joint Director, 0.5 FTE for the period April to November 2013 and then Director full time from Dec 2013.
N8 – Director left LCC in December 2012. The annualised salary for this post was £128k.
N9 – Assistant Director took on responsibilities of Director from January 2013. The annualised salary is £116k
N10 – Director seconded for 3 days a week to the Department for Transport. Reimbursement of £100k received.

a) The Authority's other employees whose remuneration, taxable expenses and severance (if applicable), was £50,000 or more are detailed below. This information does not include employer's pension contributions. The reduction in the number earning over £50,000 is due to the continuing reorganisation of the Authority and the transfer of schools to Academy Status.

	2012/13						2013/14					
	Including Severance			Excluding Severance			Including Severance			Excluding Severance		
Remuneration Band	**Schools**	**Non School**	**Number of Employees 2012/13**	**Schools**	**Non School**	**Number of Employees 2012/13**	**Schools**	**Non School**	**Number of Employees 2013/14**	**Schools**	**Non School**	**Number of Employees 2013/14**
£50,000-£54,999	74	51	125	72	52	124	55	51	106	55	50	105
£55,000-£59999	52	12	64	51	10	61	47	14	61	47	12	59
£60,000-£64,999	31	24	55	31	24	55	16	21	37	16	19	35
£65,000-£69,999	8	8	16	8	3	11	10	4	14	10	5	15
£70,000-£74,999	6	5	11	6	5	11	4	3	7	4	3	7
£75,000-£79,999	6	4	10	4	3	7	2	5	7	2	6	8
£80,000-£84,999	2	2	4	2	2	4	1	3	4	1	3	4
£85,000-£89,999	2	10	12	2	8	10	1	4	5	1	4	5
£90,000-£94,999	0	2	2	0	1	1	0	3	3	0	3	3
£95,000-£99,999	2	4	6	1	2	3	0	0	0	0	0	0
£100,000-£104,999	0	0	0	0	0	0	1	0	1	1	0	1
£105,000-£109,999	1	0	1	1	0	1	0	0	0	0	0	0
£110,000-£114,999	0	1	1	0	1	1	0	1	1	0	1	1
£115,000-£119,999	0	0	0	0	0	0	0	1	1	0	0	0
£120,000-£124,999	0	0	0	0	0	0	0	1	1	0	0	0
Total	**184**	**123**	**307**	**178**	**111**	**289**	**137**	**111**	**248**	**137**	**106**	**243**

b) Exit Packages

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

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in each Cost Band*	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13 £m	2013/14 £m
£0 - £20,000	111	62	97	84	208	146	1.5	1.1
£20,001 - £40,000	17	4	16	8	33	12	0.9	0.4
£40,001 - £60,000	6	1	1	3	7	4	0.3	0.2
£60,001 - £80,000	4	0	2	2	6	2	0.4	0.1
£80,001 - £100,000	1	0	1	0	2	0	0.2	0.0
£100,001 - £150,000	0	0	2	0	2	0	0.2	0.0
£150,001 - £200,000	0	1	1	0	1	1	0.2	0.2
Total	**139**	**68**	**120**	**97**	**259**	**165**	**3.7**	**2.0**

*The above table includes accrued liabilities. See note 41 for further details

**Note the numbers shown are the actual number of officers, not full time equivalents.

35. Audit Costs

	2012/13 £m	2013/14 £m
Fees payable to external auditor:		
▪ annual audit	0.1	0.1
▪ certification of grant claims *	0.0	0.0
- other **	0.0	0.0
Total	**0.1**	**0.1**

* Grant claims continue to be accounted for on the basis of actual payments in year (£5,500 2012/13), rather than an estimation of costs relating to 2013/14 grant claims.

** Other includes Tax helpline of £3,000 (2012/13 £3,000).

36. *Dedicated Schools Grant*

The Authority's expenditure on schools is funded by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Authority's area. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2012. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2013/14 are as follows:

	Schools Budget Funded by DSG					
	2012/13			2013/14		
	Central Exp £m	Individual Schools Budget £m	Total £m	Central Exp £m	Individual Schools Budget £m	Total £m
Final DSG before Academy recoupment			(402.1)			(409.8)
Academy figure recouped			138.7			210.1
Total DSG after Academy recoupment			(263.4)			(199.7)
Brought forward from previous year			(1.8)			(6.6)
Carry forward agreed in advance			0.0			5.8
Agreed initial budgeted distribution	(49.1)	(216.1)	(265.2)	(70.3)	(130.2)	(200.5)
In year adjustments	0.1	(0.1)	0.0	0.0	0.0	0.0
Final budgeted distribution	(49.0)	(216.2)	(265.2)	(70.3)	(130.2)	(200.5)
Actual central expenditure	44.0	0.0	44.0	66.7	0.0	66.7
Actual ISB deployed to schools	0.0	214.6	214.6	0.0	130.0	130.0
Local Authority Contribution	0.0	0.0	0.0	0.0	0.0	0.0
Carry Forward	**(5.0)**	**(1.6)**	**(6.6)**	**(3.6)**	**(0.2)**	**(3.8)**

37. Grant Income

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

(i) Credited to Taxation and Non Specific Grant Income.

	2012/13 £m	2013/14 £m
Revenue:		
Revenue Support Grant	2.0	81.7
Education Services Grant	0.0	5.8
Local Service Support Grant	1.4	0.8
Council Tax Freeze Grant	6.0	2.4
New Homes Bonus Scheme Grant	1.0	2.2
Localisation of Council Tax Support Grant	0.0	0.5
Capital:		
Department for Education:		
Devolved Formula Capital	2.8	1.5
Early Years 2 Year Olds	0.7	0.0
Basic Need	8.1	3.4
Maintenance	6.7	2.8
Short Breaks for Disabled Children	0.3	0.0
Department for Transport:		
Sustrans	0.6	0.2
Local Sustainable Transport Fund	0.9	0.4
Better Bus Area Grant	2.2	0.0
Pinch Point Funding	0.0	2.8
Local Transport Plan - Maintenance	10.9	13.3
Local Transport Plan – Integrated Transport Schemes	3.5	3.5
Flood Recovery	0.0	0.5
Major Schemes Funding	0.0	6.4
Department of Health		
LASSL	1.3	1.3
Dementia Capital Funding	0.0	0.3
Other Capital Contributions:	0.9	6.7
Total (Note 12 non ringfenced government grants and capital grants and contributions)	**49.3**	**136.5**

(ii) Credited to Services.

	Restated 2012/13 £m		2013/14 £m	
Public Health				
Public Health Grant		0.0		20.2
Chief Executives				
Local Welfare Provision	0.0		1.1	
Youth Justice Board	0.8		0.4	
Troubled Families Programme	1.2		1.4	
Early Intervention Grant	0.8		0.0	
		2.8		2.9
Children and Young People's Service – Education:				
Dedicated Schools Grant	263.4		199.7	
Young Peoples Learning Agency	22.3		6.1	
PE & Sports Grant	0.0		0.9	
Early Intervention Grant	19.3		0.0	
Adoption Improvement Grant	0.1		1.2	
Pupil Premium Grant	5.0		6.4	
		310.1		214.3
Adults and Communities – Dept of Health:				
Learning Disability Commissioning Transformation	10.9		0.0	
Skills Funding Agency	5.3		4.7	
		16.2		4.7
Environment and Transportation - Dept of Transport				
Highways Maintenance Efficiency Programme	1.1		1.1	
Loughborough Inner Relief Road	4.6		0.0	
Local Sustainable Transport Fund Grant	0.8		1.0	
		6.5		2.1
Other		9.7		6.8
Total		**345.3**		**251.0**

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

Short-Term Capital Grants Receipts in Advance:

	31 March 2013 £m	31 March 2014 £m
Dept for Education:		
Short Breaks for Disabled Children	0.2	0.0
Dept for Transport:		
Better Bus Area Fund	1.9	0.0
Section 106 Housing Developer Contributions	0.0	0.2
Other Grants and Contributions	0.1	0.0
Total	**2.2**	**0.2**

Long-Term Capital Grants Receipts in Advance:

	31 March 2013 £m	31 March 2014 £m
East Midlands Development Agency:		
Land Reclamation Grant	0.4	0.4
Section 106 Housing Developer Contributions	4.6	8.4
Total	**5.0**	**8.8**

38. *Capital Expenditure and Capital Financing*

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

	2012/13 £m	2013/14 £m
Opening Capital Financing Requirement	**380.4**	**339.6**
Capital Investment:		
Property, Plant and Equipment	50.5	64.3
Intangible Assets	0.5	1.1
Revenue Expenditure funded from Capital under Statute	10.4	6.1
Long Term Debtor – LAMS (N1)	5.4	3.0
Sources of Finance:		
Capital Receipts	(3.8)	(5.4)
Government grants and other contributions	(46.2)	(49.1)
Direct revenue contributions	(16.8)	(20.0)
Statutory Minimum Revenue Provision	(15.2)	(13.6)
Additional (Voluntary) Minimum Revenue Provision (N2)	(25.6)	(8.4)
Closing Capital Financing Requirement	**339.6**	**317.6**
Explanation of Movements in Year		
Increase in underlying need to borrow:		
Supported by government financial assistance	0.0	0.0
Unsupported by government financial assistance	0.0	0.0

(N1) Local Authority Mortgage Scheme - during 2013/14 the Authority advanced a further £3.0m (2012/13 - £5.4m) to Lloyds to make it easier for first time buyers to obtain mortgages, thus stimulating the local housing market and benefiting the wider local economy. The advance has been funded through earmarked revenue reserves (included within Direct Revenue Contributions in the table above). The £3.0m advance will be repaid in five years' time (2018/19) (£5.4m in 2017/18).

(N2) During 2013/14 the Authority made an additional MRP contribution of £8.4m (2012/13 - £25.6m), funded from revenue and reserve balances, to reduce the capital financing requirement. This reduces the need to borrow saving future capital financing costs.

39. Leases

a) Amounts Paid to Lessors

Finance lease rentals paid to lessors in the year totalled £0.3m (2012/13 £0.4m). Lease rentals paid to lessors during the year in respect of operating leases for vehicles and equipment totalled £1.0m (2012/13 £1.3m).

b) Amounts Received from Lessees

Lease rentals on Authority owned buildings received from lessees during the year in respect of operating leases totalled £1.4m (2012/13 £1.3m). Lease rentals contractually agreed to be received in 2014/15 is £0.2m. During 2013/14 twenty five schools transferred to Academy Status resulting in the net book value of the schools, £54.2m being written out of the Authority's Balance Sheet as these have been transferred on 125 year finance lease terms (2012/13 eighty two schools, £181.1m). No consideration was or will be received by the Authority for these finance leases.

c) Leased Assets

The Authority has a liability to make payments for the following leases during 2014/15 and beyond and the comparators in 2012/13 for 2013/14 and beyond are as follows:

	2012/13				2013/14			
	Finance Lease Principal (NPV) £m	Finance Cost £m	Finance Leases Total £m	Operating Leases £m	Finance Lease Principal (NPV) £m	Finance Cost £m	Finance Leases Total £m	Operating Leases £m
Lease Payments due:								
Within 1 year	0.1	0.2	0.3	0.4	0.1	0.2	0.3	0.3
2 to 5 years	0.3	0.8	1.1	1.0	0.2	0.8	1.0	0.9
Over 5 years	1.3	4.5	5.8	0	1.3	4.2	5.5	0.0
Total	**1.7**	**5.5**	**7.2**	**1.4**	**1.6**	**5.2**	**6.8**	**1.2**

Finance Leased Assets have a carrying value within Land and Buildings within Property, Plant and Equipment of £1.1m as at 31 March 2014 (2012/13 £1.1m).

40. *Impairment Losses*

During 2013/14, the Authority has not recognised any impairment losses (2012/13 nil). However, revaluations downwards of £9.3m have been recognised in the Revaluation Reserve and revaluations downwards of £17.3m have been recognised in the Comprehensive Income and Expenditure Statement as shown in Note 7.

41. *Termination Benefits*

Termination benefits arise when employment is terminated by the Authority before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Authority recognises termination benefits as a liability and an expense where the Authority can no longer withdraw the offer of those benefits. In the case of an offer made to encourage voluntary redundancy, termination benefits are measured based on the number of employees expected to accept the offer. The total termination benefits for 2013/14 are £2m (2012/13 £3.7m).

Details of actual and accrued benefits are shown below:

- **Actual Benefits**

	2012/13			2013/14		
	Number of Officers Schools	**Number of Officers Non-Schools**	**Amount (£m)**	**Number of Officers Schools**	**Number of Officers Non-Schools**	**Amount (£m)**
Department:						
Children & Young People's Services (Including Schools)	55	15	1.1	23	20	0.4
Environment & Transport		10	0.1		2	0.0
Adults & Communities		31	0.3		44	0.4
Corporate Resources		47	1.1		22	0.3
Chief Executive's (Incl East Midlands Council)		10	0.2		7	0.2
Public Health		0	0.0		1	0.0
Total	**55**	**113**	**2.8**	**23**	**96**	**1.3**

- **Accrued Benefits**

	2012/13			**2013/14**		
	Number of Officers Schools	**Number of Officers Non-Schools**	**Amount (£m)**	**Number of Officers Schools**	**Number of Officers Non-Schools**	**Amount (£m)**
Department:						
Children & Young People's Services (Including Schools)	31	28	0.7	26	13	0.6
Environment & Transport					0	0.0
Adults & Communities					2	0.0
Corporate Resources		32	0.2		2	0.0
Chief Executive's (Incl East Midlands Council)					3	0.1
Public Health					0	0.0
Total	**31**	**60**	**0.9**	**26**	**20**	**0.7**

42. Contingent Liabilities

a) Municipal Mutual Insurance Limited (MMI), the Authority's former insurer between November 1969 and October 1991, ceased writing insurance business owing to financial difficulties in September 1992. MMI made a scheme of arrangement with its creditors in the event of the company becoming insolvent. Following the Supreme Court judgement in March 2012 that Insurers are liable for claims based upon the date of exposure to asbestos fibres (which brings considerably more asbestos related claims within the period that the MMI was providing insurance cover) the scheme administrators triggered the scheme of arrangement and requested a levy from the scheme creditors during 2013/14. The Authority paid £2.2m funded from the Provision for uninsured losses. Following the payment of the levies the latest financial information for MMI shows estimated net liabilities of £28m. At this stage, the scheme administrators do not intend to request any further levies, however the position continues to be regularly monitored and if it becomes probable that a further transfer of future economic benefits will be required the Provision will be increased.

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

b) Independent Insurance Company Limited, the Authority's liability insurers for the period 1 November 1993 to 31 October 1998, went into provisional liquidation in June 2001. Claims to date for this period have been financed from the Authority's insurance reserve, however, further claims may arise in the future.

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

43. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

(i) Credit risk

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

This risk is minimised through the Annual Investment Strategy. This requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch and Moody's Ratings Services. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

Banking groups that are at least 20% owned by the UK Government and maintain a support rating of '1' on the Fitch ratings can be included on the list of acceptable counterparties for an amount of £40m for up to 1 year, as long as their short-term ratings do not fall below F1 (Fitch) and P-2 (Moody's), and their long-term ratings are maintained at least at A (Fitch) and A-2 (Moody's).

Maximum limits for funds on loan and maturity dates exists for each acceptable counterparty and vary according to the credit rating, with a maximum limit of £50m for UK and £10m for overseas institutions. At the year end all of the Authority's investments were held in UK domiciled institutions.

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

The credit criteria in respect of financial assets held by the Authority are as detailed:

Matrix for UK Banks and Building Societies

Maximum Sum Outstanding	£50m	£40m	£25m
Maximum Loan Period	3 years	3 years	2 years
Minimum Fitch Support Rating	1	1	1
Must at least match **all** of the following:			
Fitch Short Term Rating	F1+	F1+	F1+
Moody's Short Term Rating	P-1	P-1	P-1
Fitch Long Term Rating	AA	AA-	AA-
Moody's Long Term Rating	Aa2	Aa3	Aa3
Fitch Viability Rating	a+	a+	A+
Moody's Financial Strength Rating	C+	C+	C

Matrix for Overseas Banks

Maximum Sum Outstanding	£10m	£5m
Maximum Loan Period	1 year	1 year
Minimum Fitch Sovereign Rating	AAA	AAA
Minimum Fitch Support Rating	1	1
Must at least match **all** of the following:		
Fitch Short Term Rating	F1+	F1+
Moody's Short Term Rating	P-1	P-1
Fitch Long Term Rating	AA+	AA
Moody's Long Term Rating	Aa1	Aa2
Fitch Viability Rating	aa-	aa-
Moody's Financial Strength Rating	B	B

Maximum Country exposure: AAA sovereign rating = £15m

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

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

Exposure to Credit Risk

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies is 100% of its investments, but this cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at 31 March 2014 that this was likely to crystallise.

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

	Amount at 31st March 2013 £m	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 14 %	Estimated maximum exposure to default and uncollecta-bility £m	Amount at 31st March 2014 £m
Deposits with banks and financial institutions	145.0	0.0	0.0	0.0	150.8
Sales ledger	22.7	0.2	0.0	0.0	18.5
Total	**167.7**				**169.3**

No credit limits were exceeded during the reporting period and the Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Authority does not generally allow credit for customers. Credit limits are not generally imposed on customers and clients of Authority services.

The sales ledger debt is £18.5m (2012/13 £22.7m) of which £1.3m (2012/13 £1.5m) is secured debt for residential care charges. The sales ledger debt due but not impaired amount can be analysed by age as follows:

	2012/13 £m	2013/14 £m
Less than three months	17.7	12.0
Three to six months	1.3	2.1
Six months to one year	1.4	1.7
More than one year	2.3	2.7
Total	**22.7**	**18.5**

In respect of the above sales ledger debt, the Authority has made a provision of £1.6m for potential doubtful debts.

(ii) Liquidity risk

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Authority sets limits on the proportion of its fixed rate borrowing during specific periods. The strategy is to ensure that not more than 50% of loans are due to mature within any rolling five-year period through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of financial liabilities is as follows:

	Total Principal Outstanding At 31 March	
	2013 £m	**2014 £m**
Lender:		
Public Works Loan Board	188.1	180.1
Banks and building societies	105.5	105.5
Leicestershire Local Economic Partnership	0.0	0.3
Total by Lender	**293.6**	**285.9**
Analysis of maturity of these loans:		
Maturing -		
Between 1 and 2 years	8.0	10.3
Between 2 and 5 years	21.0	9.5
Between 5 and 10 years	2.5	0.0
Between 10 and 15 years	7.3	4.8
Between 15 and 20 years	1.3	7.8
Between 20 and 25 years	0.0	0.0
Between 25 and 30 years	0.0	12.6
Between 30 and 35 years	30.5	42.7
Between 35 and 40 years	80.9	75.7
Between 40 and 45 years	78.8	69.0
Over 45 years	63.3	53.5
Total by Maturity	**293.6**	**285.9**

In addition to the principal outstanding, as above, there are Lender Option Borrower Option (LOBO) adjustments of £3.0m (2012/13 £3.0m), making the total of Long Term Borrowing £288.9m (2012/13 £296.6m) as disclosed in the Balance Sheet.

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

(iii) Market risk

Interest rate risk

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

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

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

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

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

According to this assessment strategy, at 31 March 2014, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£m
Increase in interest payable on variable rate borrowings	N/A
Increase in interest receivable on variable rate investments	1.5
Increase in government grant receivable for financing costs	0.0
Impact on Surplus or Deficit on the Provision of Services	**1.5**
Decrease in fair value of fixed rate investment assets	(0.8)
Impact on Other Comprehensive Income and Expenditure	**(0.8)**
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the provision of Services or Other Comprehensive Income and Expenditure)	(51.5)

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

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

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

44. Self Insurance

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

	Deductible per Claim
	£
Fire	500,000
Public/Employers' liability	150,000
Fidelity guarantee	100,000
Motor	500

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

45. Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the difference arising from the recognition of Council Tax and Non-Domestic Rates (NDR) income in the CIES as it falls due from council tax payers and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

Collection Fund Adjustment Account	**31 March 2014**		
	Council Tax £m	**NDR* £m**	**Total £m**
Balance at 1 April 2013	(0.5)	0.0	(0.5)
Amount by which Council Tax and Non-Domestic Rates income credited to the CIES is different from Council Tax and Non-Domestic Rates Income calculated for the year in accordance with statutory requirements	(1.9)	0.5	(1.4)
Balance at 31 March 2014	**(2.4)**	**0.5**	**(1.9)**

Collection Fund Adjustment Account	31 March 2013		
	Council Tax £m	NDR* £m	Total £m
Balance at 1 April 2012	(0.7)		(0.7)
Amount by which Council Tax and Non-Domestic Rates income credited to the CIES is different from Council Tax and Non-Domestic Rates Income calculated for the year in accordance with statutory requirements	0.2		0.2
Balance at 31 March 2013	**(0.5)**		**(0.5)**

*NDR retention scheme with effect from 1 April 2013

46. Heritage Assets: Further Information on the Authority's Collections

The Art Collection

The collection consists of numerous paintings which were mostly purchased between the 1930's and 1980's. The majority of the paintings are loaned to schools, community centres, day centres and other public buildings within Leicestershire. Some of the notable paintings of most value are works of the nineteenth century local artist John Ferneley and other artists including Christopher Wood, Robert Colquhoun and William Scott.

The Archaeological Collection

This collection consists of the Hallaton treasure, the largest hoard of British Iron Age coins, which was initially discovered near Hallaton in 2000. The hoard includes over 5,000 silver and gold coins, a silver-gilt Roman parade helmet, jewellery, and other objects. Most of the items date to around the time of the Roman Conquest of Britain in the 1st century AD. It was purchased in 2007 for £0.3m and restored in 2011 and revalued to £0.4m.

The Working Life Collection

The collection consists mainly of donated steam locomotives which were operational during the mid 1950's. It also consists of the Whitwick hearse, an ice cream van and the Blue Box Century Theatre. These are all located at Snibston Discovery Park. The Century Theatre is thought to be the only solid structure, fully equipped, mobile theatre in the world. The dream of John Ridley, an engineer, was turned into reality in a Hinckley yard between 1948 and 1952. Converted from wartime military trailers and tractors, the theatre travelled in convoy of 32 vehicles to provide quality theatre around the country for 23 years. Many famous names are associated with the theatre including Laurence Olivier, Agatha Christie, Enid Blyton, Judi Dench, Helen Mirren, Tom Courtney, Derek Fowlds and Eileen Derbyshire. It is now permanently based at Snibston, primarily as an historical artefact, but it continues to provide quality touring theatre, music, comedy and educational activities for the community.

The Fashion Collection

This collection is solely made up of the Symington collection which was created by the Market Harborough Company R. & W. H. Symington, which began to make corsets for fashionable Victorian ladies in the 1850s. The company eventually grew into an international concern and one of its most famous products, the Liberty Bodice, was produced for almost seventy years.

This unique collection was donated to the Authority's Museums Service in 1980. Although it includes some pieces made by their competitors, the collection essentially tells the story of the Symington Company over a period of one hundred and thirty years. It includes garments and supporting advertising material, which provide an insight into the development of corsetry, foundation garments and swimwear from the late 19th century through to the beginning of the 1990s.

The Civic Collection

This collection comprises of the Melton Mowbray Horse Fair painting by John Ferneley and Silver and Insignia held by the Authority.

47. Acquired Operations – Public Health

The Authority acquired Public Health operations from the NHS in Leicestershire in April 2013 as part of a national reorganisation of the Health Service. The transfer brought a number of commissioning responsibilities for the Authority, together with overall responsibility for improving health at a County level.

The national Public Health outcomes framework has been developed, which sets out key outcomes of interest for partners in improving health including some mandatory services including, the National Child Measurement Programme, NHS health check assessments, comprehensive sexual health services (including testing and treatment for sexually transmitted infections, contraception outside of the GP contract and sexual health promotion and disease prevention) the local authority role in dealing with health protection incidents, outbreaks and emergencies.

48. Trust Funds (Excluded from the Balance Sheet)

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

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

To the extent that income from these investments has not been utilised for prizes etc., the surplus funds are invested in short term deposits with various financial institutions.

Under regulations issued through the Charities Act 2011, trust fund accounts where annual income exceeds £10,000, require an independent examination.

The main trust funds are as follows:

	Balance at 31 March 2013	**Income**	**Expenditure**	**Balance at 31 March 2014**
	£m	**£m**	**£m**	**£m**
Trust Funds:				
Kibworth High School Endowment	0.2	0.0	0.0	0.2
Bradgate Park & Swithland Wood Charity *	1.0	1.2	1.2	1.0
Others	0.2	0.0	0.0	0.2
Total Trust Funds	**1.4**	**1.2**	**1.2**	**1.4**

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

49. Statement of Accounting Policies and Estimation Techniques

1. General Principles

The Statement of Accounts summaries the Authority's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011. These regulations require the accounts to be prepared in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting (COPLAA) in the UK 2013/14 and the Service Reporting Code of Practice (SeRCOP) 2013/14, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 act.

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

2. Provisions

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

Provisions are charged as an expense to the appropriate service within the Comprehensive Income and Expenditure Statement in the year the Authority becomes aware of the obligation. Provisions are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

3. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. These are created by appropriating amounts out of the General Fund in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred this is charged to the appropriate service in that year to score against the Surplus or Deficit on the provision of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund in the Movement in Reserves Statement to avoid a net charge against council tax for the expenditure.

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.

b) Capital

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

Revaluation Reserve

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

Capital Adjustment Account

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

Deferred Capital Receipts Reserve

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

Capital Receipts Reserve and Capital Grants Unapplied

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

c) Other

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

Financial Instruments Adjustment Account

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

Pensions Reserve

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

Short-Term Accumulating Compensated Absences Adjustment Account

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

4. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

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

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

6. *Non- Current Assets*

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment. The Authority operates a de-minimis limit of £10,000 for individual items; relatively minor items may be financed from revenue. The purchase of single items below £10,000 may be capitalised in certain circumstances, for example, the need to comply with grant conditions.

- Measurement of assets are initially at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

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

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

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

- ***Intangible Assets*** covers the purchase of software licences which do not have a physical substance but are controlled by the Authority as a result of a past event. The valuation is based on amortised historical cost for all assets with an original cost in excess of £20,000.

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

- ***Land and Buildings*** are included in the Balance Sheet at 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 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 over the last two years and have been updated within the Asset Register. Assets Held For Sale are revalued within the year to ensure the open market value is accurate.

  The current asset values used in the accounts are based on a certificate issued by the Authority's Strategic Property Manager as at 1 April 2013. Additions since that date are included in the accounts at their cost of acquisition. The addition is then reviewed, and if the actual capital expenditure does not increase the asset valuation or if the expenditure is less than the Authority's £100,000 capital de-minimus level then this value will be recognised in the Comprehensive Income and Expenditure Statement as capital expenditure not increasing value.

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

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

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

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

- ***Surplus Assets*** are surplus to service requirements and are valued at open market value.

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

Componentisation

IAS 16 requires significant components of assets to be recorded separately where they have substantially different useful lives to enable depreciation to be calculated separately.

The Authority componentises assets into blocks that have a significant value against the total value of the asset or are naturally identifiable i.e. swimming pool or external building. The Authority also recognises a significant component within a block to be any component over £100,000 that individually exceeds 25% of the total value of the block and has a substantially different life to the overall structure.

Revaluation of Assets

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

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

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

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

Impairment of Assets

Impairment of non-current assets arising from the clear consumption of economic benefit e.g. physical damage such as a major fire is assessed each year-end as to whether there is any indication that an asset may be impaired. Where impairment losses are identified they are firstly offset against any revaluation gains in the Revaluation Reserve and only when this is cleared to nil is the balance charged to the relevant service line within the Comprehensive Income and Expenditure Statement.

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

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

7. Heritage Assets

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

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

Heritage Assets - General

Valuations for all of the above collections are based on 50% of the insurance valuation which is reviewed on an annual basis as the insurance policies are for double the market value. Assets are initially recognised at cost and will then be revalued for insurance purposes and will be valued at 50% of this valuation.

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

8. *Leased Assets and Deferred Purchase Arrangements*

In accordance with IAS 17 any lease that transfers substantially all of the risks and rewards incident to ownership of the asset will be classified as a finance lease. An operating lease is any lease other than a finance lease.

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

The Authority recognises both a major part of an asset's economic life and substantially all of the fair value of an asset to be 75% and over.

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

Rentals payable under operating leases are charged directly to Comprehensive Income and Expenditure Statement.

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

9. *Revenue Expenditure Funded From Capital Under Statute*

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement. The Authority operates a policy of charging 100% of such expenditure to services within the Comprehensive Income and Expenditure Statement. Where the Authority has determined to meet the cost of this expenditure from existing capital resources, or by borrowing, a transfer in the Movement in

Reserves Statement from the General Fund to the Capital Adjustment Account reverses out the amounts charged so there is no impact on the level of council tax.

10. Charges to Revenue for Non-current Assets

Depreciation and Amortisation is chargeable to all services in the Comprehensive Income and Expenditure Statement, 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, assets under construction, refurbishment or assets held for sale.

Where assets suffer impairment, then dependent upon the reason for that impairment, an accelerated depreciation charge may be made to the Comprehensive Income and Expenditure Statement.

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, new builds are usually estimated to have a useful life of 70 years).

- ***Infrastructure*** - 40 years.

- ***Vehicles, Plant, Furniture and Equipment*** - estimated useful life (averaging around 5 years).

- ***Components*** - will vary between 20 – 50 years for new components/blocks

- ***Assets Held for Sale*** – Depreciation is not charged on Assets Held for Sale.

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) Amortisation

Intangible Assets are amortised over their useful life of no more than 5 years.

11. *Capital Receipts*

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

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

12. *Accruals of Income and Expenditure*

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can reliably measure the percentage of completion of the transaction and it is probable that the economic benefits associated with the transaction will flow to the Authority.
- Supplies are recoded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried on the Balance Sheet as inventory.
- Expenses in relation to services received are recorded as expenditure when the service is received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- A debtor or creditor is recorded in the Balance Sheet where expenditure and revenue has been recognised but cash has not been received. Where debts may not be settled the balance is written down and a charge made to revenue.

The exceptions to this policy are as follows:

a) Annual IT software licences 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 Comprehensive Income and Expenditure Statement when the loan is granted.

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

13. Government Grants

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

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

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

Grants and contributions for which conditions have not been satisfied are held as creditors on the Balance Sheet. When conditions attached are satisfied the grant or contribution is credited to the appropriate service lines within the Comprehensive Income and Expenditure Statement.

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

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

14. Inventories, Work in Progress and Long-Term Contracts

Inventories are included within the Balance Sheet at the lower of cost and net realisable value.

Leicestershire Highways, Central Print and Catering trading accounts value their inventories using the average cost formula.

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

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

15. Overheads and Support Service Costs

The costs of overheads and support services are charged to those that benefit from the supply of the service in accordance with the costing principles in the Service Reporting Code of practice (SeRCOP). The total absorption costing principle is used where he full cost of overheads are shared between service users in proportion to the benefits received with the exception of:

- Corporate and Democratic Core: costs relating to the Authority's status as a multi-functional democratic organisation.
- Non Distributed Costs: discretionary benefits awarded to employees retiring early and impairment losses on assets held for sale.

16. Financial Instruments

a) Liabilities

Borrowings at fixed interest rates from either the PWLB or other financial institutions are initially measured at fair value and carried in the Balance Sheet at amortised cost.

Borrowing at Variable Interest

- Loans linked to the London Inter-bank Offered Rate (LIBOR) will be recorded at amortised cost.
- Loans at stepped interest rates (LOBO's) are recorded at fair value with interest charged to the Comprehensive Income and Expenditure Statement calculated at the effective rate of interest (essentially an average rate for the expected duration of that loan), rather than the cash paid in a year.

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

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

Premiums and Discounts Arising from Premature Repayment of Debt.

- The Authority continuously reviews existing external loans and interest rates being paid, and has the option of restructuring or refinancing this debt. All such transactions are taken to the Comprehensive Income & Expenditure Statement in the year that the repayment is made.
- Statutory regulations enable the Authority to negate the additional charge/credit arising on such transactions by posting a reversal within the Movement in Reserves Statement to the Financial Instruments Adjustment Account.

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

b) Assets

Loans and Receivables

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

Soft Loans

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

Fair Value through the Comprehensive Income & Expenditure Statement

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

17. Employee Benefits

- ***Benefits Payable During Employment***

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

- ***Termination Benefits***

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. Redundancy costs are recognised immediately in the Comprehensive Income and Expenditure Statement against the appropriate service, or on the Non Distrusted Cost line.

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

- ***Post Employment Benefits***

Pension Schemes

The Authority participates in two pension schemes. Both schemes provide defined benefits to members (retirement lump sums and pensions) earned as employees work for the Authority. The schemes are as follows:

- ***Teachers***

This is an unfunded scheme administered by Capita Teacher's Pensions on behalf of Department for Education.

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet.

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

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

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

Liabilities are discounted to their value at current prices using a discount rate of 4.3%.

The assets of the fund are shown in the Balance Sheet at fair value:
- Quoted securities- current bid price
- Unquoted securities- professional estimate
- Unitised securities- current bid price
- Property- market value

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

- Service Cost comprising:
  - *Current service cost* - the increase in liabilities as a result of years of service earned this year- allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
  - *Past service cost* - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years- charged to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - *Net interest on the net defined benefit liability (asset)* - e.g. net interest expense for the Authority - the change during the period in the net defined

benefit liability (asset) that arises from the passage of time- charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement- this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined liability (asset) at the beginning of the period- taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:
  - *The return on plan assets* - excluding amounts included in net interest on the net defined benefit liability (asset) - charged to the Pension Reserve as Other Comprehensive Income and Expenditure.
  - *Actuarial gains and losses* - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions- charged to the Pension Reserve as Other Comprehensive Income and Expenditure.

- Contributions paid to the Pension Fund:
  - Cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

Statutory provisions for retirement benefits require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year. In the Movement in Reserves Statement this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace with debits and credits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned.

- ***Discretionary Benefits***

The Authority has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to award.

18. Value Added Tax (VAT)

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

19. Contingent Liabilities

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

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

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

20. Contingent Assets

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

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

21. Events after the Balance Sheet date

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

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

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

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

22. Collection Fund Adjustment Account

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

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

a) In its capacity as a billing authority an authority acts as an agent: it collects and distributes:
- council tax income on behalf of the major preceptors and itself,
- non-domestic rates income on behalf of the central government, the major preceptors and itself.

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

Council tax and non-domestic rates income included in the CIES for the year is the accrued income for the year. The difference between the income included in the

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

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

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

The Authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used) a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Authority is recognised and reported in the costs of the Authority's services and is apportioned to service areas on the basis of energy consumption.

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 Assistant Director, Strategic Finance and Property..
- 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 29 September 2014.

N RUSHTON
LEADER OF THE COUNTY COUNCIL AND CHAIRMAN OF THE CONSTITUTION COMMITTEE

THE ASSISTANT DIRECTOR OF STRATEGIC FINANCE AND PROPERTY RESPONSIBILITIES

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

In preparing this Statement of Accounts, the Assistant Director of Finance & Property has:
- Selected suitable accounting policies and then applied them consistently,
- Made judgements and estimates that were reasonable and prudent,
- Complied with the Local Authority Code,
- Kept proper accounting records which were up to date,
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts has been prepared in accordance with proper practices and presents a true and fair view of the financial position of Leicestershire County Council and its income and expenditure for the year ended 31 March 2014.

C TAMBINI
ASSISTANT DIRECTOR, STRATEGIC FINANCE AND PROPERTY
29 SEPTEMBER 2014

Pension Fund

(Registration number: 00328856RQ)

Introduction

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

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

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

   There were 32,458 contributors to the Fund at 31 March 2014 and 22,359 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 LLP completed the latest valuation, as at 31 March 2013. The change in contribution rates resulting from the actuarial valuation as at 31 March 2013 will be effective from 1 April 2014. This review resulted in a requirement for the common contribution rate of employer's contributions to increase from 14.3% to 18.2% of pensionable pay. This common rate for all employers is adjusted to reflect the individual circumstances of different employing bodies. The actual contribution rate payable by most employing bodies is above the common contribution rate, due to the requirement to reduce the current deficit.

   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 2013 valuation revealed that the Fund's assets which at 31 March 2013 were valued at £2,628m, were sufficient to meet approximately 72% of the liabilities accrued up to that date. Assets were valued at their market value.

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

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

Financial Assumptions	Mar 2013 % p. a. Nominal	Mar 2013 % p. a. Real
Funding basis discount rate	4.8%	2.3%
Pay increases*	4.3%	1.8%
Price inflation/pension increases	2.5%	0.0%

* Plus an allowance for promotional pay increases.

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

3. In 2013/14 the average employer rate was 18.7% of pay (17.8% 2012/13).

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

5. List of admitted and scheduled bodies:

The Pension Fund contributors include:

Blaby District Council, Charnwood Borough Council, Connexions Trading, De Montfort University, Harborough District Council, Hinckley & Bosworth Borough Council, Leicester City Council, Leicester, Leicestershire and Rutland Combined Fire Authority, Office of the Police and Crime Commissioner for Leicestershire, Leicestershire County Council, Leicestershire & Rutland Probation Board, Loughborough University, Melton Borough Council, North West Leicestershire District Council, Oadby & Wigston Borough Council, Rutland County Council, Brooksby Melton College, Gateway Sixth Form College, Leicester College, Loughborough College, Regent College, South Leicestershire College, Stephenson College, Wyggeston QE1 College.

Academies consisting of Brooke Hill, Casterton Business and Enterprise College, Catmose Federation, Fairfield, Forest Way, Glen Hills, Humphrey Perkins, John Ferneley, Kibworth High, Krishna Avanti Free School, Limehurst, Lutterworth High, Manor High, Rawlins, Martin High, Robert Smyth, Samworth Enterprise, South Wigston High, Stephenson Studio School, Uppingham Community College, Welland Park, Woodbrook Vale, Countesthorpe Community College, Guthlaxton, Lutterworth College, Bosworth, Belvoir and Melton, John Cleveland College, Redmoor High, Abington, Wreake Valley, Roundhill, Market Bosworth High, Gartree, Dorothy Goodman, Stafford Leys, The Meadow, Blessed Cyprian Tansi MAT, Great Bowden, Huncote, Discovery Schools, Meadowvale, Farndon Fields, Ridgeway, Ivanhoe College, Winstanley, Newbridge, Heathfield, Brookvale High, St Dominics Catholic MAT, Leysland High, Thomas Estley, Mount Grace, Brockington, Castle Rock, Cosby, Ashby School, Groby Community College, King Edward – Coalville, Ibstock Community College, Long Field, Bushloe, Ashby Hill Top, Broomfield, Merton, Eastfield, Gaddesby, Pochin School, Lady Jane Grey, Castle Donington College, Thrussington, Church Hill Infant, Queniborough, Church Hill Junior, Leicester Academies Charity Trust, St Michael & All Angels, Birkett House, Bottesford, Broom Leys, Barwell C of E Beacon, Holywell, Rendell, Measham, Mountfields Lodge, Outwoods Edge, St Peters C of E, Millfield LEAD, Ivanhoe Under 5's, Ratby, Stonebow, Cobden, Red Hill Field, Swallowdale, Asfordby Hill, Great Dalby, Ash Field, Queensmead, Corpus Christie MAT.

Parish and Town Councils consisting of Anstey, Asfordby, Ashby, Ashby Woulds, Barrow Upon Soar, Barwell, Blaby, Braunstone, Broughton Astley, Countesthorpe, Glen Parva, Leicester Forest East, Lutterworth, Market Bosworth, Mountsorrel, Shepshed, Sileby, Syston, Thurmaston, Whetstone.

Other employers consist of ABM Catering, Age Concern, Aspens, Bradgate Park Trust, Capita Business Services, Capita Managed IT Solutions, Children's Links, Connexions Services, Connexions Trading, EMH Homes, Eastern Shires Purchasing Organistation, East Midlands Shared Services, East West Community Project, Family Action, Fusion Lifestyle, G Purchase, G4S, Highfields Community Association, ICare, Melton Learning Hub, National Youth Agency, Rushcliffe Care, Seven Locks Housing, SLM Community Leisure, Spire Homes, VISTA, Voluntary Action Leicester.

Fund Account for the Year Ended 31 March 2014

2012/13 £m		Notes	2013/14 £m	
	Contributions and Benefits			
133.5	Contributions	3	139.3	
8.9	Transfers in	4	4.3	
142.4			143.6	
(120.6)	Benefits	5	(121.0)	
(8.0)	Leavers	6	(6.1)	
(1.2)	Administrative Expenses	7	(1.5)	
(129.8)			(128.6)	
12.6	**Net additions from dealings with members**			**15.0**
	Returns on investments			
19.4	Investment income	8	24.5	
265.6	Change in market value of investments	9	80.2	
(7.0)	Investment management expenses	11	(6.9)	
278.0	**Net returns on investments**			**97.8**
290.6	**Net increase in the fund during the year**			**112.8**
	Net assets of the scheme			
2,336.5	At 1 April			2,627.1
2,627.1	**At 31 March**			**2,739.9**

Net Assets Statement as at 31 March 2014

2012/13 £m		Notes	2013/14 £m
2,625.9	Investment assets	9	2,736.5
(5.5)	Investment liabilities	9	(2.8)
2,620.4			**2,733.7**
9.5	Current Assets	13	9.9
(2.8)	Current Liabilities	13	(3.7)
2,627.1	**Net Assets of the Fund at 31 March**		**2,739.9**

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

The notes on pages 103 to 125 form part of the Financial Statements.

Notes to the Accounts

1. Basis of Preparation

The financial statements have been prepared in accordance with the provisions of International Financial Reporting Standard (IFRS) and the Code of Practice on Local Authority Accounting issued by Chartered Institute of Public Finance and Accountancy.

2. Accounting policies

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

Investments

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

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

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

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

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

Investment Income

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

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

Income from other investments is accounted for on an accruals basis.
The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year,

including profits and losses realised on sales of investments and unrealised changes in market value but excluding translation gains and losses arising from assets denominated in foreign currency.

Foreign currencies

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

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

Contributions

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

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

Benefits payable

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

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

Transfers to and from other schemes

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

Other Expenses

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

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

3. Contributions

	2012/13 £m	2013/14 £m
Employers		
Normal	94.5	101.3
Voluntary additional	0.5	0.0
Advanced payments for early retirements	3.9	1.8
Additional payments for ill-health retirements	0.3	1.1
Members	33.8	34.7
Normal	0.5	0.4
Purchase of additional benefits		
Total	**133.5**	**139.3**

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

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

	2012/13 £m	2013/14 £m
Leicestershire County Council	40.3	36.6
Scheduled bodies	87.4	96.8
Admitted bodies	5.8	5.9
Total	**133.5**	**139.3**

4. Transfers In

	2012/13 £m	2013/14 £m
Individual transfers in from other schemes	8.9	4.3
Total	**8.9**	**4.3**

5. *Benefits*

	2012/13 £m	2013/14 £m
Pensions	87.6	93.5
Lump sum retirement benefit	29.3	24.7
Lump sum death benefit	3.7	2.8
Total	**120.6**	**121.0**

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

	2012/13 £m	2013/14 £m
Leicestershire County Council	48.0	45.6
Scheduled bodies	67.4	66.3
Admitted bodies	5.2	9.1
Total	**120.6**	**121.0**

6. *Payments to and on account of leavers*

	2012/13 £m	2013/14 £m
Individual transfers to other schemes	8.0	6.1
Total	**8.0**	**6.1**

7. *Administration Expenses*

	2012/13 £m	2013/14 £m
Administration and processing	1.0	1.0
Actuarial fees	0.1	0.2
Computer system costs	0.1	0.3
Total	**1.2**	**1.5**

8. *Investment Income*

	2012/13 £m	2013/14 £m
Income from fixed interest securities	0.1	0.0
Dividends from equities	2.5	2.5
Income from index-linked securities	2.2	3.6
Income from pooled investment vehicles	10.3	13.3
Net rents from properties	5.3	5.0
Interest on cash or cash equivalents	0.2	0.2
Net Currency Profit / (Loss)	(1.2)	(0.1)
Securities Lending Commission	0.0	0.0
Insurance Commission	0.0	0.0
Total	**19.4**	**24.5**

9. *Investments*

	Value at 1 April 2013 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change In Market Value £m	Value at 31 March 2014 £m
Equities	89.3	51.9	(55.3)	1.5	87.4
Index-linked securities	245.3	118.1	(81.5)	(42.7)	239.2
Pooled investment vehicles	2,158.6	173.6	(178.3)	102.7	2,256.6
Properties	66.5	8.8	(0.1)	3.7	78.9
Cash and currency	54.1	15.9	(0.0)	0.0	70.0
Derivatives contracts	2.5	27.2	(42.8)	15.0	1.9
Other investment balances	4.1	0.0	(4.4)	0.0	(0.3)
Total	**2,620.4**	**395.5**	**(362.4)**	**80.2**	**2,733.7**

The change in the value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The Fund has investments in the Legal & General UK equity index fund of £180.7m (31/03/13 - £178.9m), the Legal & General UK Core UK equity index fund of £153.9m (31/03/13 - £147.3m), the Legal & General North America index fund of £183.1m (31/03/13 - £169.5m), the Legal & General FTSE RAFI North America fund of £185m (31/03/13 - £134.4m) and the Pictet Absolute Return Global Diversified Fund of £139.9m (31/03/13 - £130.8m), that exceed 5% of the total value of net assets.

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

	2012/13 £m	2013/14 £m
Equities		
UK quoted	20.8	24.4
Overseas quoted	68.5	63.0
	89.3	**87.4**
Index Linked Securities		
UK quoted	99.8	43.1
Overseas quoted	145.5	196.1
	245.3	**239.2**
Pooled investment vehicles (unquoted)		
Property funds	172.4	176.4
Private equity	113.4	111.3
Corporate bond funds	145.6	178.8
Hedge funds	46.0	4.4
Equity-based funds	1,298.7	1,381.4
Commodity-based funds	82.1	75.3
Timberland fund	34.1	38.2
Managed futures fund	82.9	87.8
Targeted return fund	130.8	139.9
Infrastructure fund	52.6	63.1
	2,158.6	**2,256.6**
Properties		
UK (Note 12)	**66.5**	**78.9**
Cash and currency	**54.1**	**70.0**
Derivatives contracts		
Forward foreign exchange assets	4.9	1.6
Currency option assets	0.8	1.0
Other option assets	1.5	2.1
Other future assets	0.8	0.0
Forward foreign exchange liabilities	(4.9)	(2.7)
Currency option liabilities	(0.1)	(0.1)
Other Future Liabilities	(0.5)	(0.0)
Sterling Denominated	**2.5**	**1.9**
Other Investment Balances	**4.1**	**(0.3)**
Total Investments	**2,620.4**	**2,733.7**

Pooled investment vehicles include investments in fund-of-funds which have an underlying value of £108.6m in private equity, £8.2m in corporate bonds and £38.2m in timberland.

10. Derivatives

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

Forward Foreign Exchange Contracts
All forward foreign exchange contracts are classed as 'Over the Counter' and at 31 March the net exposure to forward foreign exchange contracts can be summarised as follows:

	2012/13 £m	2013/14 £m
Active currency positions (those whose purpose is solely to seek economic gain) Administration, management and custody	1.0	0.2
Passive currency positions (those whose purpose is to hedge the Fund's benchmark exposure to currencies back to sterling)	(1.0)	(1.3)
Total	**(0.0)**	**(1.1)**

Options
All options held by the Fund were exchange traded. The value of these options and the assets to which they were exposed can be summarised as follows:

	2012/13 £m	2013/14 £m
Commodity-based	0.2	0.0
Currency-based	0.7	0.9
Interest rate-based	0.2	0.0
Equity rate-based	1.1	2.1
Total	**2.2**	**3.0**

Futures
All futures held by the Fund were exchange traded. The value of these options and the assets to which they were exposed can be summarised as follows:

	2012/13 £m	2013/14 £m
Commodity-based	0.0	0.0
Bond-based	0.1	0.0
Equity market volatility-based	0.0	0.0
European dividend-based	(0.1)	0.0
Equity market-based	0.3	0.0
Total	**0.3**	**0.0**

11. *Investment Management Expenses*

	2012/13 £m	2013/14 £m
Administration, management and custody	6.9	6.8
Other advisory fees	0.1	0.1
Total	**7.0**	**6.9**

12. *Property Investments*

	31 March 2013 £m	31 March 2014 £m
Freehold	51.9	58.5
Long Leasehold (over 50 years unexpired)	8.7	10.0
Short Leasehold (under 50 years unexpired)	5.9	10.4
Total	**66.5**	**78.9**

All properties, except the Fund's farm investment, were valued on an open market basis by Nigel Holroyd and Adrian Payne of Colliers Capital UK at 31 March 2014. The Fund's farm was valued on an open market basis by James Forman of Leicestershire County Council. All valuers are Associates of the Royal Institute of Chartered Surveyors.

13. *Current Assets and Liabilities*

	2012/13 £m	2013/14 £m
Contributions due from employers	6.1	7.4
Cash Balances	0.4	0.1
Other Debtors	0.4	0.2
Due from Ministry of Justice	2.6	2.2
Current assets	**9.5**	**9.9**
Due to Leicestershire County Council	(0.4)	(2.0)
Fund Management Fees Outstanding	(1.8)	(1.4)
Other Creditors	(0.6)	(0.3)
Current liabilities	**(2.8)**	**(3.7)**
Net current assets and liabilities	**6.7**	**6.2**

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

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

14. *Analysis of Investments by Manager*

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

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

	At 31 March 2013 £m	%	At 31 March 2014 £m	%
Investment Manager				
Legal & General	941.8	36.0	1,023.7	37.5
Ruffer LLP	186.2	7.1	199.5	7.3
Kames Capital	226.3	8.6	184.2	6.7
Aviva Investors	183.5	7.0	156.4	5.7
Pictet Asset Management	130.8	5.0	139.9	5.1
Kleinwort Benson Investors	114.9	4.4	121.8	4.5
Kempen Capital	108.7	4.1	104.6	3.8
Adams Street Partners	110.3	4.2	108.6	4.0
Colliers Capital UK	86.6	3.3	102.0	3.7
JP Morgan Asset Management	80.2	3.1	93.0	3.4
Delaware Investments	88.5	3.4	88.2	3.2
Aspect Capital	82.9	3.2	87.8	3.2
Prudential / M&G	55.9	2.1	77.5	2.6
Investec Asset Management	78.0	3.0	72.9	2.7
Stafford Timberland	34.1	1.3	38.2	1.4
Industry Funds Management	36.9	1.4	36.1	1.3
Internally Managed and Currency Managers	5.6	0.2	34.7	1.3
Capital International	36.5	1.4	32.8	1.2
Kravis Kohlberg Roberts	15.7	0.6	27.0	1.0
Catapult Venture Managers	3.1	0.1	2.7	0.1
Fauchier Partners	13.6	0.5	2.1	0.1
UBS Global Asset Management	0.3	0.0	0.0	0.0
Total	**2,620.4**		**2,733.7**	

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. *Operation and Management of fund*

Details of how the Fund is administered and managed are included in the 2013/14 Pension Fund Annual Report.

17. *Employing bodies and fund members*

A full list of bodies that have active members within the Fund is included on pages 100 and 101.

18. *Actuarial valuation*

At the date of the Fund's last actuarial valuation (31 March 2013) the Fund had assets of £2,628m. At that date the Fund's assets covered 72% of its accrued liabilities.

19. *Valuation of financial instruments carried at fair value*

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

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

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

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

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

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

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

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31st March 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value	2,178,362	341,118	216,960	2,736,440
Financial liabilities at fair value	(2,791)			(2,791)
Net financial assets	**2,175,571**	**341,118**	**216,960**	**2,733,649**

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31st March 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value	2,075,704	304,195	245,986	2,625,885
Financial liabilities at fair value	(5,482)			(5,482)
Net financial assets	**2,070,222**	**304,195**	**245,986**	**2,620,403**

20. Nature and Extent of Risks Arising from Financial Instruments

Risk and risk management

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

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

a) Market risk

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

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

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historic data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, Leicestershire County Council has determined that the following movements in market prices risk are reasonably possible for the 2014/15 reporting period:

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

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

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

Asset type	Value at 31st March 2014	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
UK equities	24,409	16	28,314	20,504
Overseas equities	63,006	19	74,977	51,035
Global index-linked bonds	239,178	8	258,312	220,044
Pooled property funds	176,382	15	202,839	149,925
Pooled private equity funds	111,307	28	142,473	80,141,
Pooled global credit funds	178,748	10	196,623	160,873
Pooled hedge funds	4,368	12	4,892	3,844
Pooled equity funds	1,381,412	19	1,643,880	1,118,944
Pooled commodity funds	75,320	14	85,865	64,775
Pooled targeted return funds	139,887	12	156,673	123,101
Pooled timberland fund	38,175	16	44,283	32,067
Pooled manager futures fund	87,838	12	98,379	77,297
Pooled infrastructure funds	63,111	14	71,947	54,275
UK property	78,940	15	90,781	67,099
Cash and currency	69,968	1	70,668	69,268
Options, futures, other investment balances, current assets and current liabilities	7,804	1	7,882	7,726
Total assets available to pay benefits	**2,739,853**		**3,178,788**	**2,300,918**

Asset type	Value at 31st March 2013	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
UK equities	20,769	16	24,092	17,446
Overseas equities	68,470	19	81,479	55,461
Global index-linked bonds	245,364	8	264,993	225,735
Pooled property funds	172,366	15	198,221	146,511
Pooled private equity funds	113,350	28	145,088	81,612
Pooled global credit funds	145,578	10	160,136	131,020
Pooled hedge funds	46,022	12	51,545	40,499
Pooled equity funds	1,298,675	19	1,545,423	1,051,927
Pooled commodity funds	82,123	14	93,620	70,626
Pooled targeted return funds	130,800	12	146,496	115,104
Pooled timberland fund	34,069	16	39,520	28,618
Pooled manager futures fund	82,942	12	92,895	72,989
Pooled infrastructure funds	52,545	14	59,901	45,189
UK property	66,505	15	76,481	56,529
Cash and currency	54,101	1	54,642	53,560
Options, futures, other investment balances, current assets and current liabilities	13,428	1	13,562	13,294
Total assets available to pay benefits	**2,627,107**		**3,048,094**	**2,206,120**

Interest rate risk
The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is not highly exposed to interest rate risk but monitoring is carried out to ensure that the exposure is close to the agreed asset allocation benchmark.

The Fund's direct exposure to interest rate movements as at 31st March 2014 and 31st March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31st March 2013	As at 31st March 2014
Cash and Currency	54,101	69,968
Fixed interest securities	145,578	178,748
Total	**199,679**	**248,716**

Interest rate risk sensitivity analysis
The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets to pay benefits, A 1% movement in interest rates (100 BPS) is consistent with the level of sensitivity expected within the Fund's asset allocation strategy and the Fund's investment advisors expect that long-term average rates are expected to move less than 100 BPS from one year to the next and experience suggest that such movements are likely. The analysis that follows

assumes that other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates.

Asset type	Carrying amount as at 31st March 2014	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	**£000**	**£000**
Cash and Currency	69,968	700	(700)
Fixed interest securities	178,748	1,787	(1,787)
Total	**248,716**	**2,487**	**(2,487)**

Asset type	Carrying amount as at 31st March 2013	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	**£000**	**£000**
Cash and Currency	54,101	541	(541)
Fixed interest securities	145,578	1,456	(1,456)
Total	**199,679**	**1,997**	**(1,997)**

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

The Fund's currency rate risk is actively managed and the neutral position is to hedge 50% of the exposure back to sterling. The table below summarises the Fund's unhedged currency exposure at as 31st March 2014 and as at the previous period end:

Currency exposure – asset type	Asset value as at 31st March 2013	Asset value as at 31st March 2014
	£000	**£000**
Overseas equities	68,470	63,006
Overseas government index-linked bonds	145,531	196,081
Overseas government bonds	0	0
Private equity pooled funds	108,479	108,571
Pooled hedge Funds	13,763	4,368
Overseas and Global equity-based pooled funds	939,917	1,020,715
Commodity-based pooled funds	82,123	75,320
Infrastructure pooled funds	52,545	63,111
Timberland pooled fund	31,981	38,175
Total overseas assets	**1,442,809**	**1,569,347**

Currency risk – sensitivity analysis

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

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

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

Currency exposure – asset type	Asset value as at 31st March 2014	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas equities	63,006	71,197	54,815
Overseas government index-linked bonds	196,081	221,572	170,590
Private equity pooled funds	108,571	122,685	94,457
Pooled hedge Funds	4,368	4,936	3,800
Overseas equity-based pooled funds	1,020,715	1,153,408	888,022
Commodity-based pooled funds	75,320	85,112	65,528
Infrastructure pooled funds	63,111	71,315	54,907
Timberland pooled fund	38,175	43,138	33,212
Total change in assets available	**1,569,347**	**1,773,363**	**1,365,331**

Currency exposure – asset type	Asset value as at 31st March 2013	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas equities	68,470	77,371	59,569
Overseas government index-linked bonds	145,531	164,450	126,612
Overseas government bonds	108,479	122,581	94,377
Private equity pooled funds	13,763	15,552	11,974
Pooled hedge Funds	939,917	1,062,106	817,728
Overseas equity-based pooled funds	82,123	92,799	71,447
Commodity-based pooled funds	52,545	59,376	45,714
Infrastructure pooled funds	31,981	36,139	27,823
Total change in assets available	**1,442,809**	**1,630,374**	**1,255,244**

The Fund has an active currency manager with a portfolio based on a notional value of £340m (2012/13 - 2 Fund Managers with £340m each i.e. £680m in total), although this is the maximum exposure that they are allowed to have. In order to achieve gains within their portfolios they utilise forward foreign exchange contracts and, on occasions, currency options. The portfolios have an average target volatility of 2.5% and as a result the Fund is exposed to currency risk through these portfolios. The table below shows the likely impact onto the net assets available to pay benefits.

Currency exposure – asset type	**Asset value as at 31st March 2014**	**Change to net assets available to pay benefits**	
		+2.5%	**-2.5%**
	£000	**£000**	**£000**
Active currency portfolios	340,000	348,500	331,500
Total change in assets available	**340,000**	**348,500**	**331,500**

Currency exposure – asset type	**Asset value as at 31st March 2013**	**Change to net assets available to pay benefits**	
		+2.5%	**-2.5%**
	£000	**£000**	**£000**
Active currency portfolios	680,000	697,000	663,000
Total change in assets available	**680,000**	**697,000**	**663,000**

b) Credit risk

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

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

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

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

Deposits are not made with banks and financial institutions unless they are rated independently and have a high credit rating. Many of the Fund's investment managers use the money market fund run by the Fund's custodian to deposit any cash within their portfolios, although 1 manager (Kames Capital) lends cash directly to individual counterparties in the London money markets. Any cash held directly by the Fund is deposited in an instant access high interest account with National Westminster Bank.

The Fund believes it has managed its exposure to credit risk, and has never had any experience of default of uncollectible deposits. The Fund's cash holding at 31st March 2014 was £70.0m (31st March 2013: £54.1m).

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. All of the Fund's cash holdings are available for immediate access, although on some occasions this will involve withdrawing cash balances from the portfolios of investment managers.

The Fund is allowed to borrow to meet short-term cash flow requirements, although this is an option that is only likely to be used in exceptional circumstances.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert to cash. As at 31st March 2014 the value of illiquid assets (considered to be the Fund's investments in property, hedge funds, private equity, timberland and infrastructure) was £472.3, which represented 17.2% of total Fund assets. (31st March 2013: £484.3m, which represented 18.5% of total Fund assets).

The Fund remains cash flow positive for non-investment related items so there is no requirement to produce detailed cash flow forecasts. All investment related cash flows are known about sufficiently far in advance that they can be covered by taking action in a manner that is both cost-effective and in line with the Fund's investment strategy.

All financial liabilities at 31st March 2014 are due within one year.

Refinancing risk

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

Securities Lending

As at 31 March 2014, £4.3m of stock was on loan to an agreed list of approved borrowers through the Fund's Custodian in its capacity as agent lender. The loans were all in respect of equities and were covered by £4.3m of non-cash collateral.

Collateral is marked to market, adjusted daily and held by the custodian on behalf of the Fund. Income from stock lending amounted to £0.007m during the year.

The Fund retains its economic interest in stocks on loan, and therefore the value is included in the Fund valuation, however there is an obligation to return collateral to the borrowers, therefore its value is excluded from the Fund valuation. The securities lending programme is indemnified, giving the Fund further protection against losses.

Reputational Risk

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

21. Related Party Transactions

From the information currently available there were no material transactions with related parties in 2013/14 that require disclosure under FRS8.

22. Contingent Liabilities

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

If all of these individuals choose to take a refund of contributions the cost to the Fund will be around £0.7m, although the statutory requirement of the Fund to pay interest to some members would increase this figure. Should all of the members opt to transfer to another scheme the cost will be considerably higher.

23. Contractual Commitments

At 31 March 2014, the Fund had the following contractual commitments:-

a) Undrawn commitments totalling $119,173,400 (£71,483,310) to twenty four different pooled private equity funds managed by Adams Street Partners (31st March 2013 £63,614,870 to twenty three different funds).

b) An undrawn commitment of £868,145 to two private equity funds managed by Catapult Venture Managers (31st March 2013 £971,829 to two funds).

c) An undrawn commitment of $15,218,000 (£9,128,153) to the KKR Global Infrastructure Fund (31st March 2013 £22,409,694)

d) An undrawn commitment of €14,025,000 (£11,594,608) to the Stafford International Timberland VI Fund (31st March 2013 £18,372,077)

e) An undrawn commitment of £3,879,000 to the M & G Debt Opportunities Fund (31st March 2013 £28,332,000)

24. Additional Voluntary Contributions (AVC's)

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

During 2013/14 £1.7m in contributions were paid to Prudential and at the year end the capital value of all AVC's was £13.7m.

25. Policy Statements

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

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

26. Compliance Statement

Income and other taxes

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

Self-investment

There has been no material employer related investment in 2013/14 or 2012/13. There were occasions on which contributions were paid over by the employer later than the statutory date, and these instances are technically classed as self investment. In no instance were the sums involved material, and neither were they outstanding for long periods.

Calculation of transfer values

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

Pension Increase

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

Changes to LGPS

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

27. Analysis of Investments

	At 31 March 2013 £m	%	At 31 March 2014 £m	%
Fixed & Variable Interest Stocks				
United Kingdom:				
- Indexed Linked	99.8	3.8	43.1	1.6
- Overseas Index Linked	145.5	5.5	196.1	7.2
- Global Credit	145.6	5.6	178.8	6.5
	390.9	**14.9**	**418.0**	**15.3**
Equities - United Kingdom	**379.5**	**14.4**	**385.1**	**14.1**
Equities – Overseas				
Global Dividend Focused	224.6	8.5	227.5	8.3
North America	330.3	12.6	396.1	14.5
Europe	180.7	6.9	196.7	7.2
Japan	34.1	1.3	31.3	1.1
Pacific ex Japan	89.1	3.4	85.2	3.1
Emerging Markets	149.6	5.7	146.9	5.4
	1,008.4	**38.4**	**1,083.7**	**39.6**
Private Equity	**113.4**	**4.3**	**106.6**	**3.9**
Hedge Funds	**46.0**	**1.7**	**4.4**	**0.2**
Targeted Return	**213.7**	**8.1**	**227.7**	**8.3**
Commodity Funds	**82.1**	**3.1**	**75.3**	**2.8**
Infrastructure Funds	**86.6**	**3.4**	**100.6**	**3.7**
Property				
United Kingdom:				
- Retail	24.7	1.1	30.1	1.1
- Offices	14.2	0.5	15.5	0.6
- Industrial	11.8	0.5	13.1	0.5
- Leisure and Alternatives	14.6	0.4	19.0	0.7
- Agriculture	1.2	0.0	1.2	0.0
Indirect	172.4	6.6	176.4	6.4
	238.9	**9.1**	**255.3**	**9.3**
Cash and Currency				
Cash and deposits	54.1	2.1	70.0	2.5
Foreign exchange derivatives	0.8	0.0	(0.2)	0.0
Other derivatives contracts	1.8	0.1	2.1	0.1
Other Net Assets (Liabilities)	10.9	0.4	5.9	0.2
	67.6	**2.6**	**77.8**	**2.8**
Total	**2,627.1**	**100.0**	**2,734.5**	**100.0**

28. Pension Fund Accounts Reporting Requirement

A. Introduction

CIPFA's Code of Practice on Local Authority Accounting 2013/14 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS 19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS 19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the Leicestershire County Council Pension Fund, which is in the remainder of this note.

B. Balance Sheet

Year ended	31 Mar 2014 £m	31 Mar 2013 £m
Present value of Promised Retirement Benefits	4,508	4,110

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2014 comprises £2,205m in respect of employee members, £790m in respect of deferred pensioners and £1,513m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

C. Assumptions

The assumptions used are those adopted for the Administering Authority's IAS 19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2014 is to increase the actuarial present value by £204m.

D. Financial Assumptions

My recommended financial assumptions are summarised:

Year ended	31 Mar 2014 % p.a.	31 Mar 2013 % p.a.
Inflation/Pensions Increase Rate	2.8%	2.8%
Salary Increase Rate	4.6%	5.1%*
Discount Rate	4.3%	4.5%

**Salary increases are assumed to be 1% p.a. until 31 March 2015 reverting to the long term assumption shown thereafter.*

E. Longevity Assumption

The life expectancy assumption is based on the Fund's Vitacurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.2 years	24.3 years
Future Pensioners*	24.2 years	26.6 years

**Future pensioners are assumed to be currently aged 45*

Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund.

F. Commutation Assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

G. Professional Notes

This paper accompanies my covering report titled ‘Actuarial Valuation as at 31 March 2014 for IAS 19 purposes’ dated 30 April 2014. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Barry McKay

Barry McKay FFA

21 May 2014

For and on behalf of Hymans Robertson LLP

Audit Opinion

(To Follow)

Audit Opinion

(To Follow)

Audit Opinion

(To Follow)

Audit Opinion

(To Follow)

Annual Governance Statement (AGS) 2013/14

1. INTRODUCTION

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

2. WHAT IS GOVERNANCE?

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

LCC has adopted a Code of Corporate Governance, which is consistent with the six core principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government.* The Accounts and Audit (England) Regulations 2011, require the Council to prepare and publish an Annual Governance Statement (AGS).

3. WHAT THE AGS TELLS YOU

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

4. HOW THIS STATEMENT HAS BEEN PREPARED

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

To ensure this AGS presents an accurate picture of governance arrangements for the whole Council, each Director was required to complete a 'self-assessment', which provided details of the measures in place within their department to ensure compliance (or otherwise) with the Council's Code of Corporate Governance.

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

Score	Definition	Description	Evidence (all inclusive)
1	Good 	Compliance against the majority of the areas of the benchmark is good, although there may be minor weaknesses with a limited impact on the ability to achieve departmental and Council objectives. Strategic, reputational and/or financial risks are minor and performance is generally on track.	• Many elements of good practice to a high standard and high quality; • Coverage of this 'area of control' is extended to most/all services areas within the department
2	Some weaknesses/ areas for improvement 	There are some weaknesses against areas of the benchmark and the department may not deliver some of its own and the Council objectives unless these are addressed. The management of strategic, reputational and/or financial risks is inconsistent and performance is variable across the department.	• Some elements of good practice to a high standard and high quality; • Coverage of this 'area of control' is only extended to certain service areas, with omissions in others; • Proposal/Plans are in place to address perceived shortfalls
3	Key weaknesses/ many areas for improvement 	Compliance against many/all areas of the benchmark is weak and therefore delivery of departmental and Council objectives is under threat. There are many strategic, reputational and/or financial risks and performance is off track.	• There is little good practice to a high standard and high quality; • Coverage of this expectation is omitted amongst most areas; • Proposal/Plans to address perceived shortfalls are in early stages of development

The application of a more quantitative approach to assessing compliance against the Code will allow the Corporate Management Team, Members and public at large to obtain necessary assurance that the Council operates within an adequate internal control environment, thus complying with the six core principles and best practice. Within each principle we have identified the sources of assurance and areas for improvement.

<table>
<tr><th colspan="2"><u>PRINCIPLE A</u>
Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area</th></tr>
<tr><th>How we meet this Principle (key facts)</th><th>Conclusions based on Corporate and Departmental Assessment</th></tr>
<tr><td>
• We set out the overall Council vision in the Sustainable Community Strategy Outcomes, the Council Strategic Plan (to 2018) and the Transformation Plan which is supported by specific departmental service/business Plans and strategies

• We take account of service user feedback to review outcomes so they reflect progress and wider changes

• We publish our plans and our performance in the Annual Report and Statement of Accounts

• We communicate with, and publish results of our consultations with stakeholders

• We have developed a Medium Term Financial Strategy that has been endorsed by External Auditors for its ability to manage financial risks and achieve Value for Money

• We have consistently been at or near the top of the PricewaterhouseCoopers LLP ‘benchmarking club’ for delivering value for money

• We work in partnership where it is beneficial to do so and ensure appropriate arrangements are in place to safeguard us against unacceptable levels of risk

• We have various channels to raise formal complaints and procedures that inform systematic service improvement
</td><td>
Average Score: 1.5

• The role of the department in helping to deliver the Council’s key priorities and values is clearly identified and communicated to staff and stakeholders
• Departmental Management Teams receive regular reports on the status of performance indicators and have a process in place to address poor performance
• Regular communication is in place so that all staff are kept informed of key operational, departmental and corporate issues.

• Value for money is better understood through benchmarking and comparison of unit costs, aided by improved Business Intelligence.
</td></tr>
</table>

PRINCIPLE B **Members and officers working together to achieve a common purpose with clearly defined functions and roles**	
How we meet this Principle (key facts)	**Conclusions based on Corporate and Departmental Assessment**
• We adhere to a Constitution that clearly defines the Council's political structure, roles and responsibilities of the Executive, Committees, Members and Officers and the rules under which they operate • We comply with the Statement on the Role of the Chief Financial Officer and the Role of the Head of Internal Audit • Our Employment Committee is responsible for determining the terms and conditions on which staff hold office, including remuneration, disciplinary and grievance procedures and for making effective arrangements to ensure compliance with employment legislation and where necessary employment codes of practice • We have developed protocols to ensure effective formal communication between members and officers by providing regular reports on progress and performance in relation to their respective committee and functions; and informal briefings on key topics • We conducted and published the results of an extensive public consultation and involvement exercise to inform the MTFS, and continue to communicate with stakeholders on future plans and proposals • We have gained understanding of the performance of partnerships we are involved in through a governance self-assessment of various benchmarks	**Average Score: 1.4**  • Overview & Scrutiny support the work of the Council by: reviewing and scrutinising decisions; considering aspects of performance; assisting in research, policy review and development; and promoting collaborative working. • Robust pay and condition policies for staff and a published scheme of Member remuneration and allowances • Self- assessment shows that partnerships in Leicestershire are well led, managed and clearly accountable for decisions made.  • Awareness of, and regular inclusion of partnership working governance issues and risks at departmental management teams

<u>PRINCIPLE C</u> **Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**	
How we meet this Principle (key facts)	**Conclusions based on Corporate and Departmental Assessment**
• We have adopted a revised Code of Conduct for Members, with training provided for all new Members following local elections in May 2013 • We maintain records of, and publish Members' Register of Interests on our website • The Corporate Governance Committee supports and promotes the maintenance of high standards of conduct by Members and have agreed criteria for assessing complaints against Members, which is published on our website • We have adopted an Employee Code of Conduct with regular communication to staff and our extended HR policies provide examples of both acceptable and non-acceptable behaviour • We assess ourselves against the Audit Commission's 'Protecting the Public Purse' to gain better knowledge of fraud exposure and direct potential improvement. We have a 'zero tolerance' approach to fraud or corruption perpetrated against us • We have arrangements in place to enable staff to raise issues of concern and report wrongdoing	**Average Score: 1.1**  • Departmental arrangements ensure that all staff are aware of, understand and comply with key procedures, protocols and requirements within the Code of Conduct  • Review of the Employee Code of Conduct and Whistleblowing Policy with awareness communication for all staff.

PRINCIPLE D **Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**	
How we meet this Principle (key facts)	**Conclusions based on Corporate and Departmental Assessment**
• We publish all Committee agendas, meeting papers and minutes on our website • We promote transparency by transmitting and archiving live webcasts of County Council, Cabinet, Scrutiny and Development Control and Regulatory Board meetings • Scrutiny Commissioners produce and publish a report on the activities of Overview and Scrutiny over the year • We are committed to publishing as much information as we can and make available a large amount through our website, including our FOI Act publication scheme • We consult widely on our plans and proposals to inform our decisions. 74% of residents' surveyed feel well informed about local public services. • We have gained 'substantial assurance' on the operation and processes within our risk management framework • Corporate Governance Committee actively engage and conduct detailed scrutiny of the Corporate Risk Register and emerging risks • The adequacy and effectiveness of our internal control environment is tested throughout the year as a result of the approval and implementation of a risk based Internal Audit Annual Plan. • We participate in a range of external audits, inspections and accreditations to ensure we remain accountable for the quality of services we deliver as well to support continuous improvement of these services	**Average Score: 1.2**  • Budgets are regularly monitored at departmental level and reallocated in line with revised risk/operational needs • Departmental Management Teams take full ownership of risks within their area and agree mitigating actions • There are up to date Business Continuity plans in place for critical services that are communicated to staff and subject to periodic review and testing • Results/findings of internal and external assurance are reported to management teams with processes in place to track the status of corrective actions  • Further enhancing organisational business intelligence to aid accurate decision making

PRINCIPLE E **Developing the capacity and capability of members and officers to be effective**	
How we meet this Principle (key facts)	**Conclusions based on Corporate and Departmental Assessment**
• Our Learning & Development priorities are based upon having the knowledge, skills and expertise to meet our current and future service priorities • Learning & Development plans are informed by the: MTFS; Strategic Vision and Imperatives; Departmental key aims; Service area plans; and individual Performance and Development Reviews (PDR) • A 'golden thread' approach ensures that all staff understands and can make the links from their own team and individual objectives through to the departments and Council's overarching priorities • An established competency framework that yields behaviours to support the direction of the Authority, with all middle and senior managers completing a 'Leading for High Performance' programme • We develop workforce plans and set targets that are in line with Council wide workforce targets • We continue to provide opportunities to elected councillors in accordance with our agreed Member Learning & Development Strategy	**Average Score: 1.3**  • All staff have annual performance appraisals with individual objectives being aligned with both departmental and corporate priorities • Induction training is provided for all new staff appropriate to their role and responsibilities, with access to on-going Learning & Development activities to enhance skills  • Succession planning for key posts and spread of skills to avoid over reliance on any particular individual

PRINCIPLE F Engaging with local people and other stakeholders to ensure robust public accountability	
How we meet this Principle (key facts)	**Conclusions based on Corporate and Departmental Assessment**
• We publish an Annual Report which include information on outcomes, achievements, satisfaction and progress against key priorities and plans • We use a variety of mediums to conduct dialogue with our residents ranging from a wide spread consultation on budget proposals resulting in 7200 responses; to more focused, individual service user groups • Our communication strategy is based on an audience-led approach which has allowed us to better target residents who use or need our services, examples include our website, Leicestershire Matters, the Council Tax Leaflet • We have extended our communication to social media, which includes a Facebook Page and an increase of Twitter followers of 81% year on year • We have robust Freedom of Information practices in place which enable us to meet our obligations and publish our responses to requests.	**Average Score: 1.5**  • Departmental Freedom of Information champions ensure that all enquiries are handled in accordance with corporate standards • Services are supported to conduct robust consultation and engagement with local people and stakeholders  • Information for the Council's external website is routinely checked with updates made and communicated.

5. REVIEW OF EFFECTIVENESS

The CIPFA Governance Framework details the key sources of typical systems and processes that an authority can adopt to ensure it has an effective system of internal control. Using this guidance, the Authority can provide assurance that it has effective governance arrangements, which have been established through the following:

Internal Audit Service

The Control Environment of Leicestershire County Council

The Council's Internal Audit Service Annual Plan for 2013/14 was developed using a risk based approach, aligned to the contents of Corporate and department risk registers to ensure current and emerging risks were adequately covered. Internal Audit Service reports may contain recommendations for improvements. The number, type and importance of recommendations affects how the auditor reaches an opinion on the level of assurance that can be given that controls are suitably designed and applied effectively, and that material risks will likely not arise. The combined sum of individual audit opinions and other assurances gained, allows the Head of Internal Audit Service (HoIAS) to form the annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment).

Governance and Risk Management (Provisional opinion)

During 2013/14 there was a small increase in the number of key risk audits that returned only 'partial' assurance ratings and is most likely an indicator of the increasing pressures and strains on staff, processes and systems during a time of unprecedented change. Management continue to accept the need for remedial action but there will be a need to monitor improvements, especially where there has been slippage in implementing some 'high importance' recommendations. On the whole, reasonable assurance can be given that the Council's control environment is sound and that governance, risk and control frameworks are adequate and effective.

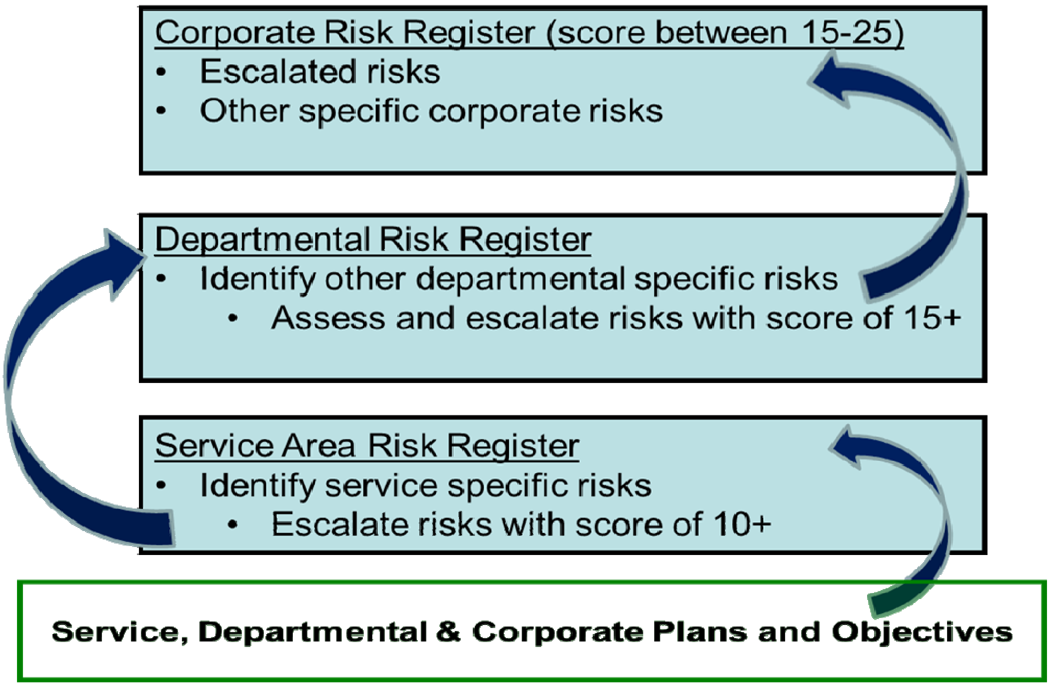
Effectiveness of Internal Audit Service

New Public Sector Internal Audit Standards (PSIAS) were introduced from April 2013 and require the HoIAS to develop and maintain a Quality Assurance and Improvement Programme (QAIP) so that internal audit activity can be assessed against it. The QAIP itself is subject to internal and external assessments and the results, together with a progress update against prior improvement plans, will be reported in the HoIAS's annual report. The annual report will incorporate any instances of non-conformance that may be warrant inclusion in the AGS and will be presented to the Corporate Governance Committee.

In order to assist the HoIAS annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework, sample checking of the self-assessments and supporting evidence was conducted. Lead Members confirmed that the processes in place to inform and update them on the key risks and issues within their specific portfolio were satisfactory and staff surveys showed that the majority of employees have sound knowledge of the areas tested.

Risk Management

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



Service Area Risk Registers

Each major service area has their own Service Plans and contained within these, is a set of risks specific to that service. The service area risk register will include those risks that relate to current workloads, new developments, projects and partnerships being led by individual teams and is regularly reviewed by Assistant Directors. Service area risks with a current risk score of 10 or above will be escalated to the overall Departmental Risk Register for further consideration by Departmental Management Teams.

Departmental Risk Register

These registers incorporate those risks which have been identified by service areas as potentially having the most significant impact on the achievement of departmental priorities and forms part of the department's Performance Management Framework. Within this register, any risks with a current risk score of 15 or above are assessed for inclusion in the Corporate Risk Register and escalated where appropriate. On a quarterly basis, Departmental Management Teams will formally review their departmental register to ensure it: accurately reflects the risk profile of the department; provides assurance for the corporate risks which are owned by the department; and identify other emerging departmental risks.

Corporate Risk Register
This register captures strategic risk, which by its nature has a long time span. This register is reviewed by corporate owners and presented to the Corporate Management Team and Corporate Governance Committee regularly.

This structure enhances the effectiveness of the Council's framework to managing risks by applying a more quantitative approach to decision making processes throughout. In implementing a management of risk system, the Council seeks to provide assurance to stakeholders that the identification, evaluation and management of risk play a key role in the delivery of strategy and related objectives.

Corporate Governance Committee

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

During 2013/14 the Committee has provided assurance that: an adequate risk management framework in place; the Council's performance is properly monitored; and that there is proper oversight of the financial reporting processes. The Committee receives regular reports on the: progress of internal audit work; treasury management; Regulation of Investigatory Powers Act (RIPA); anti-fraud initiatives; and extended risk management information on business continuity and insurance. The table below provides summary information of other key business considered by this Committee to support the above.

March to May 2013	June 2013	September 2013	November 2013	February 2014
Presentation & endorsement of the revised Member Code of Code	External Review of the Medium Term Financial Strategy (2013/14 to 2016/17)	Consider External Auditors 2012/13 'report to those charged with governance' and approving the 2012/13 Annual Statement of Accounts and Annual Governance Statement	Considered External Auditors Annual Audit Letter for 2012/13 and reviewed the External Audit Plan 2013/14	Review External Audit Grant Certification for 2012/13 and consider report covering the use of overseas Service Delivery Centres by the auditor.
Member 'risk workshop' to inform the revised Corporate Risk Register	Approval of the revised Corporate Risk Register and the draft 2012/13 Annual Governance Statement	Update on the Corporate Risk Register including a specifically requested presentation on the risks to the Authority associated with the Welfare Reform Act.	Update on the Corporate Risk Register including consideration of a Fraud & Bribery risk assessment	Update on the Corporate Risk Register including a specifically requested presentation on the risks to the Authority associated with the Better Care Fund
Training for new Committee Members including overview of the Internal Audit Service and Risk Management Framework	Approve the 2013/14 Internal Audit Plan and consider 'Annual Members Report'	Received Local Government Ombudsman Annual Review & Corporate complaints handling	Note progress against key improvement areas highlighted in the 2012/13 Annual Governance Statement	Presentation of key facts from 'Protecting the Public Purse 2013' including an updated checklist for the benefit of those 'responsible for governance' detailing the Authority's progress in each area
	Updated on the investigation into allegations concerning Member conduct	Considered the Code of Conduct for co-opted Members of Health & Wellbeing Board and the Annual Report on the operation of the Members Code of Conduct 2012/13	Considered impact on treasury management activity as a result of updates to the list of acceptable loan counterparties	Support of the draft Treasury Measurement Strategy Statement and Annual Investment Strategy
	Considered governance and finance issues at East Midlands Councils	Received presentation on the Local Government Governance Review		

External Audit

The Council's Constitution includes Standing Financial Instructions, Contract Procedure Rules and Schemes of Delegation to Chief Officers. These translate into key operational internal controls such as: control of access to systems, offices and assets; segregation of duties; reconciliation of records and accounts; decisions and transactions authorised by nominated officers; and production of suitable financial and operational management information. These controls demonstrate governance structures in place throughout the Council which contribute to the production of the Annual Statement of Accounts. The Council's external auditors PricewaterhouseCoopers (PwC) review these arrangements and detail findings from their planned audit work to those charged with governance.

Key conclusions from work undertaken during 2013/14 can provide the public with assurance that the Council has:

- Applied a number of prudent assumptions in setting its MTFS, which will help manage financial risks, with robust programme management arrangements in place to ensure that saving targets will be achieved;
- Demonstrated value for money on a number of key areas when compared with other Authorites and has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- Incorporated significant Member involvement in the development of the MTFS and has set aside an appropriate level of earmarked reserves and contingency to manage future cost pressures;
- No significant audit or accounting issues and no material deficiencies in internal control and that the Annual Statement of Accounts presented a true and fair view, in accordance with the relevant codes and regulation.

The Role of the Chief Financial Officer (CFO)

From 1st March 2014, the Assistant Director Strategic Finance & Property took over responsibilities of the CFO for the Council. To ensure continuity, the new CFO is a key member of the Corporate Management Team and is able to bring influence to bear on all material business decisions, ensuring that immediate and long term implications, opportunities and risks, are fully considered and in alignment with the MTFS and other corporate strategies. The new CFO is aware of, and committed to, the five key principles that underpin the role of the CFO, and has completed an assurance statement that provides evidence against core activities which strengthen governance and financial management across the Council. The Director of Corporate Resources (former CFO) has supported the transition and will continue to oversee the role, thus ensuring that the Councils' financial arrangements fully conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Role of the Head of Internal Audit

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

6. GOVERNANCE ISSUES AND AREAS FOR IMPROVEMENT

This review of effectiveness has been informed by both Internal and External Audit and the conclusion of the review is that the Council's overall financial management and corporate governance arrangements during 2013/14 are sound.

Details of a fraud committed at Leicestershire Highways Operations (LHO) were identified in 2010. The Council has been prudent in providing details of this issue in the AGS, during investigation stages and in anticipation of an outcome following court proceedings:

Governance Issue	Update on position
• Two employees and two external associates created a new company that was used to defraud the Council. • Neither employee declared personal interests in the Company. • Goods were provided to the Council but at excessive prices. • The fraudulent activity existed between December 2004 and August 2010.	• An internal investigation commenced in November 2010 and concluded with a disciplinary hearing in May 2011. • A review of control processes was undertaken with actions implemented to strengthen any gaps identified. Key improvements have included the implementation of an electronic purchase order system and a resource allocation process which aids detection of any irregularities in purchasing activities. • Internal Audit Service has conducted three separate audits of processes; giving overall reasonable assurance that control has been re-established. • Two former officers were found guilty at Leicester Crown Court in March 2014 regarding 5 charges related to conspiracy to defraud the Authority and were sentenced in May 2014.

Progress on issues previously identified:

The table below describes the governance issue identified during 2012/13 and the progress made against addressing this during 2013/14:

Issue	Update on position	Carry forward for 2014/15
The Authority was subject to adverse publicity from January 2012 regarding the use of Authority resources by the former Leader. The Authority has responded positively in that: • The Corporate Governance Committee received regular and detailed reports allowing Members to ensure that issues had been properly addressed; • Complaints were addressed through Standards procedures; • Action was taken to address the matter by the controlling Conservative Group; • The three Political Groups have all taken steps to strengthen their conduct and behaviour procedures	• The former Leader is no longer a Member of the Council; • Following local elections in May 2013, all Members received training on the revised Code of Conduct for Members; • The Monitoring Officer has also issued a guide on the Code and copies were circulated to all members; • Progress on debt recovery is reported to the Corporate Governance Committee.	Complete

Key Improvement Areas – 2014/15

Whilst the review of effectiveness concluded the Council's overall financial management and corporate governance arrangements are sound, the assurance gathering process identified some areas of improvement. Implementing actions to address these will ensure that gaps within the Authority's current control environment will be filled, strengthened, and further enhance our overall governance arrangements.

The table below describes identified areas for improvements during the review period 2013/14 to carry forward for monitoring within 2014/15:

Key Improvement Areas – Principle B	Lead Officer	Deadline
Partnership Working Partnership working and the investment of Authority funding is becoming potentially more complex meaning that partnership protocols and governance arrangements need to be reviewed. To this effect, a self-assessment of existing partnerships has been carried out and this provides intelligence on how partnerships perform in relation to the various governance benchmarks. Department's need to ensure they are aware of the partnerships /joint working arrangements within their areas and have duly considered any risks to the Authority.	Departmental Management Teams	December 2014

Key Improvement Areas – Principle C	Lead Officer	Deadline
Whistleblowing The Authority's current Employee Code of Conduct and Whistleblowing Policy needs to be revised taking into account recent best practice. To this effect the County Solicitor has commissioned a team to review the Council's existing policy and procedures.	Monitoring Officer	September 2014

Key Improvement Areas – Principle D	Lead Officer	Deadline
Business Intelligence (BI) Actions to improve BI will enhance the effectiveness of decision making at both departmental and corporate level aiding the forthcoming transformation agenda. A cross department review of BI and Data Management has been conducted. A Data and BI Board and action plan, focusing on 4 key work streams is being developed and will be part of the Transformation Programme and will deliver a focused programme of work to bring improvement and mitigate risk.	Assistant Director Strategic Information & Technology and Acting Assistant Chief Executive	December 2014

Key Improvement Areas – Principle E	Lead Officer	Deadline
Succession Planning The Authority recognises that there is a need to focus on improving succession planning. The People Strategy Board has agreed a pilot approach to 'Talent Management' and Succession Planning which is due to commence in April 2014 with 3 areas within the Council. A report on this will be taken to Corporate Management Team once the pilot has taken place and the outcome and future proposal is known.	Learning & Development Manager	December 2014

Key Improvement Areas – Principle F	Lead Officer	Deadline
External Website The Authority recognises that engagement with officers and the public is vital to achieving objectives and is committed to publishing information for both internal and external customers. To this effect, an Online Services Project is underway which will radically overhaul technology, content, approach and governance of the website to make it customer-focussed and evidence based.	Assistant Director Strategic Information & Technology	December 2014

7. FUTURE CHALLENGES

Transformation

In order to deliver the priorities and to meet the significant financial challenges facing the Council there is an urgent need to transform services and the way in which the Council operates. At the heart of transformation is a renewed focus on the priorities, our customers and our communities, with a determination to put people and outcomes ahead of organisational boundaries and bureaucracy. To achieve this, the Transformation Programme focuses on a number of objectives that will be used when redesigning services and will be explicit in service plans to provide a focus for innovation and change:

- **To work the Leicestershire Pound -** reducing cost and maximising funding available to the Council and other bodies.
- **To manage the demand for services through increased prevention –** reducing pressures on the front line.
- **To integrate services** and pool budgets with partners wherever possible - creating better experiences for service users and staff.
- **To recognise communities and individuals** – helping active communities deliver better results.
- **To work effectively** – in a culture that focuses on priorities, people and outcomes

The new vision states:

“The County Council will lead Leicestershire by working with our communities and partners for the benefit of everyone”

This statement is underpinned by six strategic imperatives that serve as the unconditional requirements to drive the Council’s approach;

• Lead Leicestershire;
• Support and protect the most vulnerable people/communities;
• Enable & support communities, individuals and families;
• Make Leicestershire a better place;
• Manage public sector resources effectively;
• Have the right organisational structures and behaviours to deliver this approach.

In order to ensure the necessary transformation, new governance arrangements will be required. The overall approach to this will be overseen by the cross-party Transformation Board which comprises the leaders and deputy leaders of the three main political groups as well as the cabinet lead members for major service areas. The Transformation Programme will also be supported by a new small-scale Transformation Unit.

<u>Other</u>

The other challenges faced by the Authority are detailed within the Corporate Risk Register, which is regularly presented to the Corporate Management Team and Corporate Governance Committee. Managing these risks adequately will be an integral part of both strategic and operational planning; and the day to day running, monitoring and maintaining of the Authority.

The table below summarises risks currently on the Corporate Risk Register and the actions being taken to mitigate.

Risk Description	Actions to Mitigate	Direction of Travel
Proposals in the Government's Care Bill (Dilnot Reform) which provide for very significant changes and implications for	The key risks and implications to LCC were identified and included for feedback to the Department of Health through a consultation. The Government were due to publish the results of this consultation but these	↔ Over the next 12 months the residual risk is expected to

Adult Social Care and the whole Council	are still awaited. A project board has been established to respond to the emerging risks and oversee planning for the reforms.	remain high
Outcomes relating to Supporting Leicestershire Families (SLF) not being achieved.	The allocations process is being developed in order to link direct work more robustly to identified families. Data processes for PBR (payment by results) have been further developed to include a wider range of data sources which is being utilised to identify families.	⇔ Over the next 12 months the residual risk is expected to remain high
Maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage.	The replacement SAN (Storage Area Network) gives both a more resilient infrastructure and a vastly improved position with regards to data recovery in the event of an outage. Options appraisal to re-provision current datacentre(s) is nearing completion and a programme of work on Disaster Recovery is underway.	⇩ Over the next 12 months the residual risk score is expected to move to medium
Continuing risk of failure of information security.	The Council has now achieved PSN (Public Services Network) compliance. A small number of actions are being completed, including the full roll-out of a mobile device management solution. Work is also underway to meet the 2014 PSN standards and to ensure that compliance is built into key business as usual processes.	⇩ Over the next 12 months the residual risk score is expected to move to medium
Impact of academy and secondary age conversion on home to school transport policy.	A consultation exercise on the earlier policy proposals (which were discussed at Scrutiny Commission) closed in March 2014 with over 2,000 responses received along with a number of alternative policy suggestions. In the light of the considerable public interest and the need for further consultation before a decision can be taken, the Cabinet approved a further round of consultation on the Mainstream Home to School Transport Policy with results expected in July 2014.	⇔ Over the next 12 months the residual risk is expected to remain high

Challenges caused by the Welfare Reform Act.	Work continues with service users, providing assistance to maximise income throughout the benefit changes.	Over the next 12 months the residual risk is expected to remain high
Failure by LCC to ascertain, understand and manage increased demand for services.	A cross departmental review of Business Intelligence (BI) and Data Management has been conducted with an overview presented to the Corporate Management Team. A Data and BI Board and action plan, focusing on 4 key work streams is being developed and will be part of the Transformation Programme.	Over the next 12 months the residual risk is expected to remain high
Ability to effectively contract manage devolved services through new service delivery models.	The Corporate Commissioning Contracts Board has been monitoring the performance of 23 of the Council's key contracts. Further works being initiated include identification of all key suppliers for business critical services (based on business continuity plans) and the roll-out of e-tendering (contract management module) to allow greater visibility of contract data.	Over the next 12 months the residual risk score is expected to move to medium
Insufficient capacity to provide Information & Technology solutions.	There is regular review of capacity versus demand, with further work to assess the impact on strategy of transformation activities.	Over the next 12 months the residual risk is expected to remain high
Risk around our ability to deliver savings and efficiencies through service redesign and transformation as required in the MTFS	In April 2014 the Cabinet was presented with a report detailing implications of the Chancellor Budget Statement 2014, in particular: •Projected austerity beyond 2017/18 requiring LCC to find additional estimated savings (increase of £27.5m); •The Statement did not contain any reference to costs of Care Bill and Dilnot reforms; •Significant changes to pensions have added further uncertainty to long term financial costs. As part of the wider work on	Over the next 12 months the residual risk is expected to remain 'high/red'

	transformation, the Council continues to identify savings to bridge the funding 'gap' and there will be further reports to the Cabinet and Scrutiny Commission in due course.	
Risk around achievement of funding for the Better Care Fund (previously referred to as the Integration Transformation Fund)	Following approval of the draft BCF Plan, components were subject to further analysis to assess anticipated impact and benefits. The outcome of the regional assurance review showed no major concern with the Leicestershire BCF Plan. A final BCF Plan was submitted to NHS England on 4 April 2014. A new Integration Executive has been established and will oversee delivery of the BCF Plan and the associated pooled budget.	Over the next 12 months the residual risk is expected to remain 'high/red'
Impact of an increase in unplanned and speculative local developments to address the shortfall in the 5 year housing supply.	Local Planning Authorities (i.e. district councils) need to demonstrate a 5 year supply in housing. The role of LCC is to ensure that appropriate impact assessments are being completed so that development can be properly accommodated. An increase in both the number and complexity of planning applications will make it difficult to ensure that appropriate assessments are being completed, thus impacting on our ability to secure appropriate transport improvements.	Over the next 12 months the residual risk score is expected to move to 'medium/ amber'
Cost of school sponsorship to LCC prior to conversion.	When LA schools are directed to become a Sponsored Academy by the DfE, there is a legal requirement, prior to conversion, for LCC to absorb any deficit budgets. As well as this, sponsors are now seeking building repairs/updates before agreeing to sponsor the school. If not addressed, both of the above will result in significant negative financial and reputational impact for LCC. The Corporate School group continues to monitor any development and agree actions.	Over the next 12 months the residual risk has the potential to diminish but will be influenced by OFSTED judgments of LA maintained schools

8. CERTIFICATION

To the best of our knowledge, the governance arrangements, as defined above have been effectively operating during the year with the exception of those areas identified in Section 6. 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.

John Sinnott
Chief Executive

Nicholas Rushton
Leader of the Council

Glossary of Terms

ACCOUNTING POLICIES

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

AMORTISED COST

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

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

CASH AND CASH EQUIVALENTS

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

CAPITAL RECEIPTS

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

CAPITAL RESERVE

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

COLLECTION FUND

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

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

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

CORPORATE & DEMOCRATIC CORE

Consists of costs of democratic representation and corporate management.

CREDITORS

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

DEBTORS

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

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

FAIR VALUE
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

FORMULA GRANT
A Government Grant allocated by the following Government formula:
- Relative Needs
- Relative Resources
- Central Allocation
- Floor Damping

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

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

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

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

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

a) A finance lease involves payment by the lessee (the user) of the full cost of the asset together with a return on the finance provided by the lessor, usually payable over the anticipated life of the asset.

b) An operating lease involves the payment of a rental by a lessee for a period, which is normally less than the useful economic life of the asset.

LOCAL AREA AGREEMENT (LAA)
An agreement that sets out the priorities of a local area in certain policy fields as agreed with central government and other partners within that area, represented by local authorities and other, largely public sector bodies, within the local strategic partnership. The Authority acts as the accountable body for the LAA in Leicestershire.

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

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

NET WORTH (NET ASSETS/LIABILITIES)
Value by subtracting total liabilities from total assets.

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

NON DISTRIBUTED COSTS
Costs which comprise pension scheme past service costs, settlements and curtailments.

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

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

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

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

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

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

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

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

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

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

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

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

SPECIFIC GRANTS
Grants paid by the Government for a particular service, e.g. School Standards Grant, Supporting People.

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

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

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

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

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