



Leicester  
City Council

**THIRD DESPATCH**

**MEETING OF THE AUDIT AND RISK COMMITTEE**

**TUESDAY, 27 SEPTEMBER 2016**

Further to the agenda for the above meeting which has already been circulated, please find attached the following:-

**ADDITIONAL INFORMATION**

**STATUTORY STATEMENT OF ACCOUNTS FOR THE  
FINANCIAL YEAR 2015-16**

The Director of Finance submits a report which gives details of the requirement of the Committee to approve the audited final Statutory Statement of Accounts for the financial year 2015-16. The Committee is recommended to approve the accounts, and approve a letter of management representation.

***Officer contacts***

***Angie Smith, Democratic Support***

*Tel: (0116) 454 6354 e-mail: [angie.smith@leicester.gov.uk](mailto:angie.smith@leicester.gov.uk)  
Leicester City Council. City Hall, 115 Charles Street, Leicester, LE1 1FZ*





# Statement of Accounts 2015/16



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**Cover image:** Following Leicester City Football Club's success in winning the 2015/16 Premier League, a victory parade was held on 16<sup>th</sup> May 2016. Leicester City Council was instrumental in organising and managing the parade, at which an estimated 240,000 people turned out to celebrate the historic achievement.



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## **SECTION 1 – INTRODUCTORY STATEMENTS**

**This section includes the Narrative Statement, which gives an introduction to the Statement of Accounts and summary of the Council's financial performance during 2015/16, and financial position at 31<sup>st</sup> March 2016.**

**It also contains the Statement of Responsibilities setting out the responsibilities of the Director of Finance and the Audit & Risk Committee in respect of approving the Statement of Accounts.**

**Following completion of the audit of the Council's accounts, this section includes the auditor's report to the members of Leicester City Council detailing their opinion on the financial statements and the authority's arrangements for securing value for money.**

### **NARRATIVE STATEMENT**

#### **1. Introduction**

The Statement of Accounts presents the City Council's financial performance for the year 2015/16. The accounts have been prepared on a going concern basis, and in compliance with the Code of Practice on Local Authority Accounting in the UK published by the Chartered Institute of Public Finance and Accountancy.

#### **2. Summary of the year**

##### **Revenue spending and delivery of savings**

Local government is in the midst of the most substantial funding cuts ever experienced, as a result of the UK Government's programme to reduce the national spending deficit. It is difficult to calculate the amount of grant that the Council has lost due to changes in the system of funding local government but it is estimated that government funding has fallen by £90m per year between 2010/11 and 2015/16, with further reductions expected.

By 2015/16, the Council had approved plans to cut spending by some £100m per year when compared to 2010/11.

The Council is addressing the need to make cuts by a programme of spending reviews, which are seeking savings from a range of service areas. New services are periodically added to the scope of the programme. This approach is



complemented by a 'managed reserves strategy' whereby reserves have been consciously increased to buy time to implement future reductions in a planned way. 2015/16 is the last year such an increase was possible.

Given the context, it is pleasing that most services spent within budget in 2015/16, with only Adult Social Care reporting an overspend of £3.5m, which was covered by corporate contingency funds. However, both Children's and Adult Services used one-off monies to achieve their outturn positions.

The scope for managing service pressures through departmental reserves and corporate contingency funds is reducing. The Council's 2016/17 budget sought to provide a robust framework for the Council's services by allocating additional resources where demographic and demand pressures are greatest, whilst continuing to emphasise the need to find savings and efficiencies in the ways that all services, including those receiving additional resourcing, are delivered.

### **Capital spending**

Capital spending of £136m was incurred in 2015/16, a decrease on the £186m in 2014/15. The decline is primarily due to the completion of the Building Schools for the Future (BSF) programme, for which all works substantially complete.

Significant capital works undertaken in the year include:

- The completion of the rebuilt Haymarket Bus Station, bringing greatly improved facilities to the city's transport network
- Work on the redevelopment of the Waterside area, including the Friar's Mill site, to provide high quality commercial space whilst regenerating a key area of the city
- The completion of the Community Sports Arena at Charter Street to provide a range of community sports facilities as well as a home to the Leicester Riders basketball team

There was also considerable investment in other areas including improvements to Council tenants' homes and estates, the city's key arterial routes (particularly in the north-west) and city centre streets, and the provision of new school places across the city.

### **Financial investments & cash management**

The Council had financial investments amounting to £150m at the end of the year. Whilst this total is a reduction on the figure of £167m at the end of 2014/15, the overall trend is for these balances to continue to grow. Balances change depending on operational cash requirements and were as high as £246m at times during 2015/16. The general trend of increasing balances arises as the

Government now supports all new capital schemes by grant, and Government rules disincentivise the use of Minimum Revenue Provision to repay actual debt.

The key issue for treasury strategy therefore has been, and will continue to be, the investment of cash balances in an uncertain environment and a changing regulatory framework. The Council's treasury strategy seeks to manage cash and investments to achieve a balance between the rate of return and the security of the investment, with the priority being the security of the investment.

Whilst financial institutions remain more secure than they have been following the economic crash of 2008, governments are seeking to ensure that taxpayers are never again a lender of last resort. New "bail in" rules mean that corporate investors, such as the Council, risk regulatory action converting their cash to equity investments if funds are held in banks with inadequate capital. This is forcing the Council to reconsider its investment policy and diversify to spread risk. 2015/16 saw the Council invest in a money market fund for the first time, the use of secured bank deposits, and increased use of smaller building societies as counterparties.

During 2015/16 the Council embedded its new banking arrangements with Barclays bank. Whilst Barclays retains strong credit ratings, the Council has used its previous experience with the Co-operative bank to ensure that the facilities with Barclays are structured to assist officers with the effective management of the Council's exposure to risk, and these have provided tangible operational benefits over previous arrangements.

No new borrowing took place in 2015/16 and the Council is unlikely to need to borrow money for the foreseeable future. Substantial investment balances will continue unless penalties for redeeming historic debt from the Public Works Loans Board are removed. The Council will nonetheless seek opportunities to redeem debt. High balances and low prevailing interest rates enabled the Council to set up a local investment fund, with a view to advancing money for projects which support local regeneration and which can make a return to the Council's investment.

### **Change to Minimum Revenue Provision policy**

Under local government accounting frameworks, the Council sets aside money in each year's revenue budget known as Minimum Revenue Provision (MRP). MRP insulates the taxpayer from any volatility caused by the impact of the accounting requirements for capital assets whilst ensuring that the Council always makes prudent repayment of the underlying borrowing used to fund capital expenditure. It thereby ensures that the authority's capital investment is sustainable over the long term.

It is important to note that most of the Council's external debt was taken on under the previous model of local authority capital expenditure (which operated until 2010) whereby the Government would not provide capital funding directly, but instead would provide ongoing support for the costs of borrowing for the relevant expenditure. The Council was therefore required to set aside MRP at a rate of 4% of the principal per year.

From 2010 onwards, the Government granted authorities more freedom to borrow but also moved to supporting capital expenditure through direct grants. Most capital expenditure is now fully financed in the year it is incurred, with the exception of investments that deliver the revenue savings required to repay borrowing over their operational life (such as more energy-efficient street lighting and replacement of vehicles and equipment) which are still often funded by prudential borrowing. Cuts to Revenue Support Grant have also meant that government support is now less than 4% of applicable debt.

In 2015/16 the Council made changes to the way it calculates its MRP costs to bring these more into line with the lives of the assets that borrowing supports. This kind of change has been made by many other authorities and has the effect of reducing the MRP charge payable in the short- and medium-term, thereby contributing to the revenue savings required as part of the ongoing funding cuts imposed by the Government.

The Council has given thorough consideration to maintaining a prudent approach to its capital financing strategy and has made additional voluntary contributions to MRP (known as "voluntary set aside") in 2015/16 so that the change in policy has not actually impacted on the financial position in the year.

The Council's intention is to maintain this approach for 2016/17 and until such time as the revenue savings are required. The new accounting policy would increase the Council's borrowing costs in the long-term if fully implemented (with increased costs being felt from between 2024 and 2033 depending on interest rates) but by continuing to make additional set aside where possible, the Council intends to minimise the impact of the change whilst retaining the flexibility to make savings in the years where the impact of cuts on frontline services will be most acute.

Because the Council holds considerable cash balances (as outlined above), prudential borrowing does not generally require the actual arrangement of loans from external parties.

### **3. Reserves**

The Council's uncommitted reserves stood at £15m on 31<sup>st</sup> March 2016, unchanged from the balance at the end of 2014/15. Funds required to manage the budget strategy over coming years have been moved to an earmarked "Budget Strategy – Managed Reserves" fund which now totals £40.9m. This reserve will start to be used from 2016/17 onwards.

The Council holds "earmarked" reserves for specific purposes. In addition to the budget strategy reserve outlined above, these include reserves ringfenced by law, such as schools balances (£19.6m) which can only be spent by individual schools; and funds committed for future purposes, such as monies required for Building Schools for the Future (£24.8m). Other funds include monies received from the NHS for joint projects, and money to pay for capital works.

Earmarked reserves stand at £190m. Excluding the increase in the budget strategy reserve (planned in the 2015/16 budget), this represents an underlying decline of around £3m in the year. It is expected that earmarked reserves will reduce further from 2016/17 as investment is made in transforming services to meet reduced ongoing budgets, in addition to the planned drawdown of reserves in the Council's budget strategy.

The Council's overall usable reserves fell by £2.981m.

### **4. Pensions**

The Council is a member of the Leicestershire local authority pension scheme, a defined benefit scheme managed by Leicestershire County Council. In common with most such schemes, the Council's pension fund shows a significant deficit (£531m). This represents the difference between expected investment returns and the cost of providing benefits to scheme members which have been earned to date.

The size of the deficit has decreased by £234m in the year, principally due to the impact of changes in assumptions about the growth of future liabilities and rates of return on the fund's investments.

Although this reduction in estimated liabilities is a positive development, it also serves to demonstrate the volatility of actuarial estimations on a year-by-year basis and hence the limited context in which annual movements should be viewed.

Despite the movement in 2015/16, the underlying position of the fund remains a substantial deficit that will have an increasing financial impact on the Council over the medium- to long-term. The deficit has no immediate impact on the revenue budget, but will be a factor in calculating employers' contributions from 2017/18 following the next actuarial valuation of the fund. Prudent assumptions on employer's contributions have been included in the Council's financial strategy.

Full accounts of the Leicestershire scheme can be found at:

<http://www.leics.gov.uk/pensions.htm>

## **5. Future issues**

The Council will need to make further cost savings, as Revenue Support Grant falls from £78m in 2015/16 to a provisional £28m in 2019/20. The Council's current budget strategy aims to manage spending within the planned level of resources. The effects of the vote to leave the European Union on the Council's financial position is unclear, though at present there is no indication of any change to the planned levels of Government funding in the last settlement.

The Council has joined with Leicestershire County Council and other authorities in the region to propose the creation of a combined authority as part of the Government's local devolution agenda. The creation of a new authority will be in addition to the Council's existing structures and governance but will add new responsibilities in the areas of transport and economic development.

There is significant uncertainty around the position of services and assets related to schools over the coming years. In the 2016 Budget the Government announced that it would push for compulsory conversion to academy status for all schools in England. This would result in the transfer of a large proportion of the Council's assets to other bodies as well as changes to operational responsibilities. The position has become less clear following political events during 2016. Whilst the position around compulsory transfers remains unclear, it is likely that assets of a significant value will continue to transfer over the coming years in line with current trends.

## **6. Structure of the Statement of Accounts and Core Accounting Statements**

This Statement of Accounts aims to assist readers in gaining a thorough understanding of the Council's financial position. It is divided into cohesive sections that provide readers with different kinds of information:



Core accounting statements provide an overview of the financial position at 31<sup>st</sup> March 2016 and financial performance in the 2015/16 year. The statements comprise the **Movement in Reserves Statement**, the **Comprehensive Income & Expenditure Statement**, the **Balance Sheet** and the **Cash Flow Statement**.

Users wishing to see the clearest overall view of the change in the Council's resources in the year are directed to the Movement in Reserves Statement.

A number of **notes to the accounts** provide information supporting and expanding on the core statements, and a range of additional disclosures. These notes are grouped so that, as far as possible, items are presented in close proximity to other relevant information

Leicester City Council is a unitary authority, meaning that it is the only local government organisation responsible for the City of Leicester. This means that there are two **supplementary accounting statements** included in these accounts.

- The **Housing Revenue Account (HRA)** is a statutory ring-fenced account relating to the provision of rented social housing. The HRA Income and Expenditure Statement shows a surplus of £44m. However after adjustments to reflect statutory requirements, the account generated a year-end surplus of £1.4m
- The **Collection Fund** records all income and expenditure in relation to Council Tax and Non-Domestic (business) Rates. This account shows an overall year-end deficit for 2015/16 of £3.97m.

The **Annual Governance Statement** provides an overview of the Council's key governance arrangements and updates readers on the conclusions of the annual review of these, including any changes and improvement that are being made.

The **accounting policies** provide detail underpinning the Council's approach to the treatment of the items presented throughout the accounts where there is scope for interpretation or judgement within the accounting standards specified in the Code of Practice.

## **7. Accounting policies and other significant changes**

The Council's accounting policies set out how it applied the Code of Practice in areas where there is scope for interpretation or different judgements.

The Council made some changes to its policies in 2015/16. The most significant is the change to its policy for making Minimum Revenue Provision, as detailed above. No changes in policy required re-presentation of prior year figures.

The Council's accounting policies, and details of changes to these in the year, are set out in section 6 of this Statement of Accounts and can be used to aid understanding of the financial position presented.

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Council's Responsibilities

The Council 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 council, that officer is the Director of Finance.
- Manage its affairs so as 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 Audit & Risk Committee on the .....2016.

**Cllr**..... **Date**.....

### The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper 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 Chief Finance Officer has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the local authority Code.

The Director of Finance has also:

- 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 the City Council and its income and expenditure for the year ended 31<sup>st</sup> March 2016.

**Signed:**

**Alison Greenhill CPFA, Director of Finance**

**Date**.....

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LEICESTER CITY COUNCIL**

We have audited the financial statements of Leicester City Council for the year ended 31 March 2016 on pages [a] to [b]. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Finance Officer and auditor**

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

### **Matters on which we are required to report by exception**

The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement set out on pages 126 to 141 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the Narrative Statement for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or
- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

### **Conclusion on Leicester City Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Authority's responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### **Auditor's responsibilities**

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.



We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2015, as to whether Leicester City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Leicester City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Leicester City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Basis for qualified conclusion**

In March 2015, OFSTED rated the quality of children's services as Inadequate. The report concluded that:

*"There are widespread or serious failures that create or leave children being harmed or at risk of harm. Leaders and managers have not been able to demonstrate sufficient understanding of failures and have been ineffective in prioritising, challenging and making improvements."*

Leicester City Council has made changes to its departmental management and has put in place an action plan to address the OFSTED findings.

Out of 24 recommendations addressed to the Authority, 15 recommendations have been signed off as having all key actions completed. The remaining 9 recommendations are all in progress. However the latest internal "Dashboard of key indicators", which tracks progress against a range of measures, shows 7 out of 19 measures still assessed as being inadequate/requiring improvement.

The Authority therefore cannot yet demonstrate that sufficient progress has been made to allow us to conclude that it has proper arrangements in place to ensure it

has deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

### **Qualified conclusion**

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, with the exception of the matter(s) reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Leicester City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

### **Delay in certification of completion of the audit due to work on the WGA Return not being completed by the [date of the audit report]**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

### **[Signature]**

**John Cornett**

**For and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

*St Nicholas House*

*Park Row*

*Nottingham*

*NG1 6FQ*

**[Date]**

## **SECTION 2 – CORE FINANCIAL STATEMENTS**

In accordance with the Code of Practice, there are four core financial statements:

The **Movement in Reserves Statement** shows the movement in the year on the different reserves held by the Council, analysed into “usable reserves” (those that can be applied to fund expenditure or reduce local taxation) and unusable reserves which contain items that illustrate the difference between the Council’s financial position under accounting standards (the “accounting basis”) and the amount charged to the taxpayer for the year (the “funding basis”).

The accounting basis and the funding basis serve two purposes. The accounting basis exists to ensure that the Council presents the most reliable financial position in respect of its underlying assets, liabilities, income and expenditure in accordance with International Financial Reporting Standards.

The funding basis is derived from legislation – the Council is obliged by law to set its budget and raise Council Tax on this basis. It exists to insulate the taxpayer from the volatility that can be caused by the impact of accounting adjustments on the bottom line. Whilst these adjustments are important to reflect changes in circumstances in, for example, the pension liability or the value of property assets, these movements do not have an immediate impact on the level of resource that can be spent on public services or the level of taxation required to support it.

A reconciliation of the movements between the accounting and funding basis is provided at Note 6.

The Movement in Reserves Statement shows that the Council’s total usable reserves decreased by £2.98m in 2015/16, primarily due to the use of ringfenced capital resources to support capital expenditure in line with approved budgets. The Housing Revenue Account working balance increased by £1.44m, and total earmarked reserves increased by £3.95m.

The Council’s General Fund balance (the uncommitted monies held to support day-to-day operations and manage unexpected events) remained unchanged from the previous year at £15m.

The **Comprehensive Income and Expenditure Statement** shows the Council’s actual financial performance for the year on the accounting basis, measured in terms of the resources consumed and generated over the financial period under the relevant accounting standards.

This statement is prepared on the accounting basis and shows a surplus in 2015/16 of £349m.

This includes various transactions which illustrate aspects of the Council's financial position but do not impact on the 'bottom line' amounts chargeable to taxpayers, in particular gains on the revaluation of pension liabilities (£272m) and property assets (£158m) partly offset by accounting losses on disposal of assets (including losses on assets transferred to academy schools for nil consideration).

The **Balance Sheet** shows the Council's assets and liabilities.

The top half of the Balance Sheet shows the Council's total net assets. Assets include property, plant & equipment, intangible assets, amounts owed to the Council and the Council's cash and financial investments. Liabilities include amounts owed by the Council (including conditional funding received), provisions made in respect of future events (see Note 15), the Council's borrowing and the deficit on the Council's pension fund (see section 6 below).

The bottom half of the Balance Sheet shows how the Council's net assets are financed by reserves, which are divided into usable and unusable reserves. More information on these reserves is given in Notes 2, 3 & 5, and the change in the level of reserves is reconciled in the Movement in Reserves Statement, as outlined above.

The **Cash Flow Statement** shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council 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 Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery.

### Movement in Reserves Statement (Current & Previous Years)

2015/16	Note	General Fund Balance	Ear-marked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
		£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31st March 2015 brought forward</b>		<b>(15,000)</b>	<b>(186,073)</b>	<b>(16,108)</b>	<b>(1,200)</b>	<b>(20,461)</b>	<b>(57,509)</b>	<b>(296,351)</b>	<b>(805,565)</b>	<b>(1,101,916)</b>
Movement in reserves during 2015/16										
(Surplus) or deficit on provision of services		124,021	-	(43,997)	-	-	-	<b>80,024</b>	-	<b>80,024</b>
Other Comprehensive Expenditure and Income		-	-	-	-	-	-	-	(429,393)	<b>(429,393)</b>
<b>Total Comprehensive Expenditure and Income</b>		<b>124,021</b>	<b>-</b>	<b>(43,997)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>80,024</b>	<b>(429,393)</b>	<b>(349,369)</b>
Adjustments between accounting basis & Funding basis under regulation	6	(127,969)	-	42,554	-	(7,553)	15,925	<b>(77,043)</b>	77,043	-
<b>Net (Increase)/ Decrease before Transfers to Earmarked Reserves</b>		<b>(3,948)</b>	<b>-</b>	<b>(1,443)</b>	<b>-</b>	<b>(7,553)</b>	<b>15,925</b>	<b>2,981</b>	<b>(352,350)</b>	<b>(349,369)</b>
Transfers to/(from) Earmarked Reserves	3	3,948	(3,948)	-	-	-	-	-	-	-
<b>(Increase)/Decrease in year</b>		<b>-</b>	<b>(3,948)</b>	<b>(1,443)</b>	<b>-</b>	<b>(7,553)</b>	<b>15,925</b>	<b>2,981</b>	<b>(352,350)</b>	<b>(349,369)</b>
<b>Balance at 31st March 2016 carried forward</b>		<b>(15,000)</b>	<b>(190,021)</b>	<b>(17,551)</b>	<b>(1,200)</b>	<b>(28,014)</b>	<b>(41,584)</b>	<b>(293,370)</b>	<b>(1,157,915)</b>	<b>(1,451,285)</b>



2014/15	Note	General Fund Balance	Ear-marked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
		£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31st March 2014 brought forward</b>		<b>(25,940)</b>	<b>(152,494)</b>	<b>(14,469)</b>	<b>(1,200)</b>	<b>(29,046)</b>	<b>(57,538)</b>	<b>(280,687)</b>	<b>(888,630)</b>	<b>(1,169,317)</b>
Movement in reserves during 2014/15										
(Surplus) or deficit on provision of services		17,691	-	(12,680)	-	-	-	5,011	-	5,011
Other Comprehensive Expenditure and Income		-	-	-	-	-	-	-	62,390	62,390
<b>Total Comprehensive Expenditure and Income</b>		<b>17,691</b>	<b>-</b>	<b>(12,680)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,011</b>	<b>62,390</b>	<b>67,401</b>
Adjustments between accounting basis & Funding basis under regulation	6	(40,330)	-	11,041	-	8,585	29	(20,675)	20,675	-
<b>Net (Increase)/ Decrease before Transfers to Earmarked Reserves</b>		<b>(22,639)</b>	<b>-</b>	<b>(1,639)</b>	<b>-</b>	<b>8,585</b>	<b>29</b>	<b>(15,664)</b>	<b>83,065</b>	<b>67,401</b>
Transfers to/(from) Earmarked Reserves	3	33,579	(33,579)	-	-	-	-	-	-	-
<b>(Increase)/Decrease in year</b>		<b>10,940</b>	<b>(33,579)</b>	<b>(1,639)</b>	<b>-</b>	<b>8,585</b>	<b>29</b>	<b>(15,664)</b>	<b>83,065</b>	<b>67,401</b>
<b>Balance at 31st March 2015 carried forward</b>		<b>(15,000)</b>	<b>(186,073)</b>	<b>(16,108)</b>	<b>(1,200)</b>	<b>(20,461)</b>	<b>(57,509)</b>	<b>(296,351)</b>	<b>(805,565)</b>	<b>(1,101,916)</b>

## Comprehensive Income & Expenditure Statement

2014/15				2015/16			
Gross Exp £000	Income £000	Net Exp £000		Note	Gross Exp £000	Income £000	Net Exp £000
8,638	(5,833)	2,805	Central Services to the Public		9,685	(5,468)	4,217
33,207	(11,850)	21,357	Cultural and Related Services		35,951	(13,314)	22,637
28,823	(10,925)	17,898	Environmental and Regulatory Services		29,878	(10,610)	19,268
41,324	(28,699)	12,625	Planning and Development Services		39,496	(34,521)	4,975
459,856	(348,776)	111,080	Education and Children's Services		490,913	(364,151)	126,762
42,957	(11,194)	31,763	Highways and Transport Services		55,406	(12,050)	43,356
65,463	(89,191)	(23,728)	Local Authority Housing (HRA)		30,249	(85,921)	(55,672)
154,921	(141,757)	13,164	Other Housing Services		160,873	(145,870)	15,003
143,588	(41,460)	102,128	Adult Social Care		143,962	(47,290)	96,672
26,519	(22,070)	4,449	Public Health		30,115	(24,633)	5,482
6,149	(615)	5,534	Corporate and Democratic Core		5,921	(538)	5,383
22,155	(516)	21,639	Non Distributed Costs		14,465	(349)	14,116
<b>1,033,600</b>	<b>(712,886)</b>	<b>320,714</b>	<b>Cost of Services</b>	<b>21</b>	<b>1,046,914</b>	<b>(744,715)</b>	<b>302,199</b>
		9,530	Other Operating Expenditure	22			47,207
		44,965	Financing and Investment Income and Expenditure	23			45,019
		-	Surplus or Deficit of Discontinued Operations				-
		(370,198)	Taxation and Non-Specific Grant Income	24			(314,401)
		<b>5,011</b>	<b>(Surplus) or Deficit on Provision of Services</b>				<b>80,024</b>
		(75,473)	Surplus or Deficit on Revaluation of Property, Plant and Equipment Assets	5			(157,700)
		-	Surplus or Deficit on Revaluation of Available for Sale Financial Assets				-
		137,863	Remeasurement of the Net Defined Benefit Liability	12			(271,693)
		<b>62,390</b>	<b>Other Comprehensive Income &amp; Expenditure</b>				<b>(429,393)</b>
		<b>67,401</b>	<b>Total Comprehensive Income &amp; Expenditure</b>				<b>(349,369)</b>

## Balance Sheet

31st March 2015 £000		Note	31st March 2016 £000
2,057,641	Property, Plant & Equipment	33	2,143,793
81,395	Heritage Assets	36	109,016
1,791	Intangible Assets	35	1,202
7,785	Long Term Investments	43	24,785
2,842	Long Term Debtors	46	5,873
<b>2,151,454</b>	<b>Long Term Assets</b>		<b>2,284,669</b>
132,297	Short Term Investments	43	127,351
17,985	Assets Held For Sale (<1 year)	37	10,073
2,916	Inventories	45	2,810
54,819	Short Term Debtors	46	61,130
56,462	Cash and Cash Equivalents	48	41,279
<b>264,479</b>	<b>Current Assets</b>		<b>242,643</b>
(23,317)	Bank Overdraft	48	(27,156)
(3,505)	Short Term Borrowing	43	(3,468)
(138,014)	Short Term Creditors	47	(133,715)
(8,103)	Provisions (<1 year)	15	(4,640)
<b>(172,939)</b>	<b>Current Liabilities</b>		<b>(168,979)</b>
(9,465)	Provisions (>1 year)	15	(10,001)
(243,101)	Long Term Borrowing	43	(243,096)
(884,024)	Other Long Term Liabilities	43	(650,053)
(4,488)	Capital Grants Receipts in Advance	26	(3,898)
<b>(1,141,078)</b>	<b>Long Term Liabilities</b>		<b>(907,048)</b>
<b>1,101,916</b>	<b>Net Assets</b>		<b>1,451,285</b>
	<u>Represented by:</u>		
296,351	Usable Reserves	2	293,370
805,565	Unusable Reserves	5	1,157,915
<b>1,101,916</b>	<b>Total Reserves</b>		<b>1,451,285</b>

### Cash Flow Statement

2014/15 £000		Note	2015/16 £000
(5,011)	Net surplus or (deficit) on the provision of services		(80,024)
143,131	Adjustments to net surplus or deficit on the provision of services for non-cash movements	49	179,188
(99,995)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing or financing activities	49	(82,937)
<b>38,125</b>	<b>Net cash flows from Operating Activities</b>		<b>16,227</b>
(68,688)	Net cash flows from Investing Activities	50	(30,082)
(3,408)	Net cash flows from Financing Activities	51	(5,167)
<b>(33,971)</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>		<b>(19,022)</b>
67,116	Cash (in hand), overdraft and cash equivalents at the beginning of the reporting period		33,145
<b>33,145</b>	<b>Cash (in hand), overdraft and cash equivalents at the end of the reporting period</b>	<b>48</b>	<b>14,123</b>

## **SECTION 3 – NOTES TO THE CORE FINANCIAL STATEMENTS**

### **Notes Relating to the Council’s Overall Financial Position**

The notes in this section give further information on the Council’s overall financial position by detailing:

- The Council’s usable reserves, including earmarked reserves
- The Council’s capital expenditure in the year, and the sources of finance used to support it
- The unusable reserves and adjustments that are required to comply with statutory accounting requirements for local government

They will help users understand the resources the Council has to support future revenue and capital expenditure, and the change in these resources over 2015/16. Additionally, they detail important aspects of the Council’s financial position which are reflected (under statutory requirements) in the unusable reserves, including pension liabilities and gains on the revaluation of property.

#### **1. Authorisation of Accounts**

This Statement of Accounts was authorised for presentation on the 27<sup>th</sup> September 2016 by Alison Greenhill CPFA, Director of Finance and s151 Officer. All events up to and including 27<sup>th</sup> September 2016 have been considered in these accounts.

#### **2. Usable Reserves**

Movements in the Council’s usable reserves are detailed in the table below, which indicates the statement or note that provides further detail.

	Opening Balance £000	Movement £000	Closing Balance £000	Supporting Note
General Fund	(15,000)	-	(15,000)	MIRS and Narrative Statement
Earmarked Reserves	(186,073)	(3,948)	(190,021)	Note 3 and Narrative Statement
Housing Revenue Account	(16,108)	(1,443)	(17,551)	HRA Statements & notes
Major Repairs Reserve	(1,200)	-	(1,200)	Note 6 and HRA Note 13
Capital Receipts Reserve	(20,461)	(7,553)	(28,014)	Note 4 and Note 6
Capital Grants Unapplied Reserve	(57,509)	15,925	(41,584)	Note 6
<b>Total Usable Reserves</b>	<b>(296,351)</b>	<b>2,981</b>	<b>(293,370)</b>	

### **3. Earmarked Reserves**

Earmarked reserves are amounts set aside to provide financing for future expenditure plans. The table below provides a list of reserves held by the Council. Key earmarked reserves include:

#### ***Schools' Revenue Balances***

The amount of money held in this reserve has increased from £18.5m to £19.6m following this year's outturn. This money is, by law, ring fenced to individual schools.

#### ***Budget Strategy – Managed Reserves Fund***

This reserve holds funds set aside by the Council as part of its Managed Reserves budget strategy. These funds will be used to support the revenue budget in 2016/17 and 2017/18 whilst the Council's ongoing service reviews deliver required savings.

#### ***Building Schools for the Future (BSF)***

This reserve was set up in January 2007 to meet the capital financing costs associated with the BSF programme. The balance at year-end stands at £24.8m – the BSF construction programme is now coming to completion.

#### ***Children's Services Funds***

This amount comprises £16.7m of ring-fenced school reserves which are not devolved to schools. These monies are ring-fenced to the schools block and not available for general spending. In addition, the department holds £3.4m of reserves to assist with managing future spending pressures

#### ***Capital Reserve***

This reserve includes amounts set-aside from revenue and is committed to support the capital programme of expenditure.

#### ***NHS Joint Working Projects***

This reserve was set up in 2011/12 and stands at £5.3m as at year end. The Government is increasingly providing money (via the NHS) for joint working between adult social care and the NHS. The use of this funding has to be agreed with the NHS and will be used for on-going projects. All funds directed in this way are subject to section 256 agreements which need to be signed by both parties.

#### ***Severance Fund***

This reserve exists to meet the redundancy and other severance costs arising as the Council adapts to the planned reductions in government funding over future financial years.

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2015/16	Balance at 31st March 2015 £000	Transfers In 2015/16 £000	Transfers Out 2015/16 £000	Balance at 31st March 2016 £000
<b>Ring-fenced Reserves</b>				
DSG not delegated to schools	19,803	-	(3,098)	16,705
School Balances	18,518	4,488	(3,423)	19,583
NHS Joint Working Projects	5,801	122	(648)	5,275
Schools Capital Fund	3,632	277	(1,080)	2,829
Schools Buy Back	1,014	1,454	(1,545)	923
<b>Total Ring-fenced reserves</b>	<b>48,768</b>	<b>6,341</b>	<b>(9,794)</b>	<b>45,315</b>
<b>Corporate Reserves</b>				
Budget Strategy - Managed Reserves Fund	34,031	6,905	-	40,936
Building Schools for the Future - Financing	24,317	1,660	(1,165)	24,812
Capital Reserve	15,793	12,584	(11,252)	17,125
Severance Fund	10,495	-	(2,401)	8,094
Insurance Fund	8,813	9,058	(6,750)	11,121
Service Transformation Fund	7,086	-	(951)	6,135
Welfare Reform Reserve	5,027	1,486	(1,980)	4,533
Energy Reduction Reserve	2,862	-	(1,397)	1,465
Job Evaluation (inc Schools Catering)	-	-	-	-
<b>Total Corporate Reserves</b>	<b>108,424</b>	<b>31,693</b>	<b>(25,896)</b>	<b>114,221</b>
<b>Other Reserves</b>				
Other - Miscellaneous Reserves	2,871	4,330	(3,031)	4,170
Financial Services Divisional Reserve	2,891	2,968	(1,973)	3,886
Children's Services Funds	3,872	-	(521)	3,351
IT Reserves	1,521	1,814	(29)	3,306
Channel Shift Reserve	2,000	-	(298)	1,702
City Development & Neighbourhoods	1,855	229	(472)	1,612
Looked After Children Placements	1,525	-	-	1,525
HR Divisional Reserve	689	734	(26)	1,397
City Council Elections	400	1,128	(408)	1,120
Housing Divisional Reserve	790	303	-	1,093
Strategic Initiatives	1,043	-	-	1,043
Surplus Property Disposal Reserve	1,000	-	-	1,000
Preventing Homelessness	899	-	(74)	825
Legal Services Divisional Reserve	480	604	(263)	821
Outdoor Gyms Reserve	727	-	-	727
Individual Electronic Registration	637	-	(18)	619
Improvements to Health & Wellbeing Reserve	610	-	-	610
Economic Action Plan	737	-	(252)	485
Social Care Replacement IT System	747	-	(393)	354
Delivery Communications & Political Governance	338	-	-	338
Housing-related Support Reserve	331	-	-	331
Markets Reserve	500	-	(330)	170
Adult Social Care Budget Pressures	2,000	2,000	(4,000)	-
Highways Maintenance	418	-	(418)	-
Connexions Closure	-	-	-	-
<b>Total Other Reserves</b>	<b>28,881</b>	<b>14,110</b>	<b>(12,506)</b>	<b>30,485</b>
<b>Total Earmarked Reserves</b>	<b>186,073</b>	<b>52,144</b>	<b>(48,196)</b>	<b>190,021</b>



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2014/15	Balance at 31st March 2014 £000	Transfers In 2014/15 £000	Transfers Out 2014/15 £000	Balance at 31st March 2015 £000
<b>Ring-fenced Reserves</b>				
DSG not delegated to schools	14,586	5,217	-	19,803
School Balances	21,401	2,903	(5,786)	18,518
NHS Joint Working Projects	13,516	4,084	(11,799)	5,801
Schools Capital Fund	4,545	369	(1,282)	3,632
Schools Buy Back	1,276	2,541	(2,803)	1,014
<b>Total Ring-fenced reserves</b>	<b>55,324</b>	<b>15,114</b>	<b>(21,670)</b>	<b>48,768</b>
<b>Corporate Reserves</b>				
Budget Strategy - Managed Reserves Fund	-	34,031	-	34,031
Building Schools for the Future - Financing	23,566	1,333	(582)	24,317
Capital Reserve	19,227	10,234	(13,668)	15,793
Severance Fund	13,347	-	(2,852)	10,495
Insurance Fund	7,409	8,540	(7,136)	8,813
Service Transformation Fund	2,747	4,339	-	7,086
Welfare Reform Reserve	2,990	2,037	-	5,027
Energy Reduction Reserve	1,362	1,500	-	2,862
Job Evaluation (inc Schools Catering)	1,225	2,451	(3,676)	-
<b>Total Corporate Reserves</b>	<b>71,873</b>	<b>64,465</b>	<b>(27,914)</b>	<b>108,424</b>
<b>Other Reserves</b>				
Children's Services Funds	2,463	2,362	(953)	3,872
Financial Services Divisional Reserve	1,585	3,596	(2,290)	2,891
Adult Social Care Budget Pressures	-	3,203	(1,203)	2,000
Channel Shift Reserve	-	2,000	-	2,000
City Development & Neighbourhoods	2,988	10	(1,143)	1,855
Looked After Children Placements	1,330	352	(157)	1,525
IT Reserves	1,096	528	(103)	1,521
Strategic Initiatives	1,043	-	-	1,043
Surplus Property Disposal Reserve	-	1,000	-	1,000
Preventing Homelessness	936	-	(37)	899
Housing Divisional Reserve	651	148	(9)	790
Social Care Replacement IT System	1,218	-	(471)	747
Economic Action Plan	1,169	18	(450)	737
Outdoor Gyms Reserve	-	727	-	727
HR Divisional Reserve	677	22	(10)	689
Individual Electronic Registration	380	257	-	637
Improvements to Health & Wellbeing Reserve	3,313	-	(2,703)	610
Markets Reserve	-	500	-	500
Legal Services Divisional Reserve	380	100	-	480
Highways Maintenance	418	-	-	418
City Council Elections	300	100	-	400
Delivery Communications & Political Governance	338	-	-	338
Housing-related Support Reserve	331	-	-	331
Connexions Closure	2,186	-	(2,186)	-
Other - Miscellaneous Reserves	2,495	4,464	(4,088)	2,871
<b>Total Other Reserves</b>	<b>25,297</b>	<b>19,387</b>	<b>(15,803)</b>	<b>28,881</b>
<b>Total Earmarked Reserves</b>	<b>152,494</b>	<b>98,966</b>	<b>(65,387)</b>	<b>186,073</b>

#### 4. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it.

This note also illustrates the Council's Capital Financing Requirement (CFR). The CFR represents the total underlying borrowing required to finance the Council's assets. There are two key points to note about this borrowing:

- Most borrowing used to finance capital expenditure was incurred prior to 2010, when the standard model in local government entailed borrowing funded by central government over the life of the loan. Since 2010, government has provided grant funding up front to support capital expenditure. Borrowing is now only undertaken to support schemes that deliver revenue savings sufficient to repay the debt
- New borrowing does not necessarily represent external loans taken out, but is generally financed by the Council's free cash flows. This minimises the cost of borrowing to the Council

Where capital expenditure is not financed in the year it is incurred, the expenditure results in an increase in the Capital Financing Requirement (CFR). Increases in the CFR result in higher levels of Minimum Revenue Provision (MRP) charged to the revenue budget in future years. The Council's policy for the calculation of MRP is set out in its annual budget setting report presented to Council.

	2014/15 £000	2015/16 £000
<b>Opening Capital Financing Requirement</b>	<b>567,895</b>	<b>591,127</b>
<b>Capital Investment</b>		
Property, Plant and Equipment	135,332	100,954
Intangible Assets	594	309
Heritage Assets	288	977
Investment Properties	-	-
Revenue Expenditure Funded Under Capital Statute	49,968	25,445
Loans classed as capital expenditure	-	8,246
<b>Sources of Finance</b>		
Capital Receipts	(21,305)	(9,256)
Government Grants & Other Contributions	(85,793)	(79,093)
Sums set aside from revenue:		
Direct Revenue Contributions	(36,927)	(31,174)
(MRP/Loans Fund Principal)	(18,925)	(19,669)
<b>Closing Capital Financing Requirement</b>	<b>591,127</b>	<b>587,866</b>
Increase/Decrease in underlying need to borrowing	23,071	(2,423)
HRA CFR adjustment	-	(8,311)
Assets acquired under Finance Leases	-	7,473
Assets acquired under PFI/PPP contracts	161	-
<b>Increase/(Decrease) in Capital Financing Requirement</b>	<b>23,232</b>	<b>(3,261)</b>

## 5. Unusable Reserves

	31st March 2015 £000	31st March 2016 £000
Revaluation Reserve	(445,323)	(572,533)
Capital Adjustment Account	(1,130,362)	(1,121,704)
Financial Instruments Adjustment Account	(1,390)	(667)
Deferred Capital Receipts Reserve	(101)	(1,409)
Pensions Reserve	764,428	530,775
Collection Fund Adjustment Account	(76)	1,661
Accumulated Absences Account	7,259	5,962
<b>Total Unusable Reserves</b>	<b>(805,565)</b>	<b>(1,157,915)</b>

### *Revaluation Reserve*

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment and intangible assets. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost.
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1<sup>st</sup> April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2014/15 £000	2015/16 £000
<b>Balance at 1st April</b>	<b>(381,634)</b>	<b>(445,323)</b>
Upward revaluation of assets	(108,914)	(230,325)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	33,441	72,625
<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	<b>(75,473)</b>	<b>(157,700)</b>
Difference between fair value depreciation and historical cost	4,326	4,421
Accumulated gains on assets sold or scrapped	7,458	26,069
<b>Balance at 31st March</b>	<b>(445,323)</b>	<b>(572,533)</b>

### **Capital Adjustment Account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is credited with sums provided to fund capital expenditure, both current and previous, with sums being transferred from the capital receipts reserve, capital grants and contributions, the Major Repairs Reserve and the General Fund (either direct funding or provision for repayment of borrowing). The account is debited with the reversal of sums charged to the CIES (to reflect the use of the asset by services) to avoid an impact on the General Fund. These charges include depreciation, impairment and amortisation.

The account contains revaluation gains accumulated on property, plant and equipment before 1<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains. The table below provides details of the source of all the transactions posted to the account

	2014/15 £000	2015/16 £000
<b>Balance at 1st April</b>	<b>(1,108,893)</b>	<b>(1,130,362)</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation & impairment	48,558	41,667
Revaluation losses on Property, Plant and Equipment	35,222	50,210
Amortisation of intangible assets	490	590
Revenue expenditure funded from capital under statute	49,968	25,445
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Income and Expenditure Statement	18,947	60,738
Transfer of Assets Held For Sale	263	7
	<b>(955,445)</b>	<b>(951,705)</b>
Adjusting amounts written out of the Revaluation Reserve	(11,784)	(30,490)
<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(967,229)</b>	<b>(982,195)</b>
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	(21,305)	(9,255)
Use of the Major Repairs Reserve to finance new capital expenditure	(7,513)	(7,568)
Capital Grants & Contributions credited to the Income and Expenditure Statement that have been applied to capital financing	(85,976)	(79,411)
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(18,926)	(19,669)
Capital expenditure charged against the General Fund and HRA balances	(29,413)	(23,606)
<b>Balance at 31st March</b>	<b>(1,130,362)</b>	<b>(1,121,704)</b>

### ***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.

The Council uses the account to manage discounts and premia paid on the early redemption of loans. Discounts are credited to the CIES when they are incurred, but reversed out of the General Fund Balance to the account in the Movement in Reserves Statement. Premia is debited to the CIES when they are incurred, but reversed out of the General Fund Balance to the account in the Movement in Reserves Statement. Over time, the income (on discounts) and the expense (on premia) are posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax.

The statutory arrangements referred to came into force on 1st April 2007 and applied to unamortised balances as at that date. The bulk of the outstanding balance is amortised over 10 years from that date with part of that balance being amortised over shorter periods.

The general policy is that any premia that are incurred in the future will be amortised over the longer of the residual life of the loan repaid or the life of any replacement loan that was taken. Shorter amortisation periods may be adopted, however, when this is considered prudent. Any discount that is received in the future will be amortised over the residual life of the loan repaid.

	2014/15 £000	2015/16 £000
<b>Balance at 1st April</b>	<b>(1,947)</b>	<b>(1,390)</b>
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(546)	(314)
Proportion of discounts incurred in previous financial years to be credited to the General Fund Balance in accordance with statutory requirements	1,103	1,037
<b>Balance at 31st March</b>	<b>(1,390)</b>	<b>(667)</b>
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	557	723

### **Deferred Capital Receipts Reserve**

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. For the Council these amounts relate to mortgage loans made in respect of the purchase of Council Dwellings and to properties leased out under finance leases. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When mortgage and lease payments are made the principal repayment element of these amounts are transferred to the Capital Receipts Reserve.

	2014/15 £000	2015/16 £000
<b>Balance at 1st April</b>	<b>(103)</b>	<b>(101)</b>
Transfer of deferred sale proceeds	-	(1,326)
Transfer to the Capital Receipts Reserve upon receipt of cash	5	13
Write-off of debt (re-possession)	-	-
Other	(3)	5
<b>Balance at 31st March</b>	<b>(101)</b>	<b>(1,409)</b>

### **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 Council 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, and, 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 Council makes employer's contributions to pension funds or eventually pay 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 Council 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.

	2014/15 £000	2015/16 £000
<b>Balance at 1st April</b>	<b>596,792</b>	<b>764,428</b>
Remeasurement of the Net Defined Benefit Liability	137,863	(271,693)
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	68,749	78,888
Employer's pensions contributions and direct payments to pensioners payable in the year	(38,976)	(40,848)
<b>Balance at 31st March</b>	<b>764,428</b>	<b>530,775</b>

### ***Collection Fund Adjustment Account***

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2014/15 £000	2015/16 £000
<b>Balance at 1st April</b>	<b>(1,487)</b>	<b>(76)</b>
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,411	1,737
<b>Balance at 31st March</b>	<b>(76)</b>	<b>1,661</b>

### ***Accumulated Absences Account***

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year (i.e. annual leave entitlement carried forward at 31<sup>st</sup> March each year). Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2014/15 £000	2015/16 £000
<b>Balance at 1st April</b>	<b>8,642</b>	<b>7,259</b>
Settlement or cancellation of accrual made at the end of the preceding year	(8,642)	(7,259)
Amounts accrued at the end of the current year	7,259	5,962
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	<b>(1,383)</b>	<b>(1,297)</b>
<b>Balance at 31st March</b>	<b>7,259</b>	<b>5,962</b>

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

The difference between the Accounting and funding basis for the Council's accounts is set out in the commentary on the Movement in Reserves Statement in Section 2.

This note provides a detailed reconciliation of the movements required to reflect the statutory amounts chargeable to the taxpayer for the year 2015/16. These adjustments reconcile the movements on all the unusable reserves in Note 5 to the Movement in Reserves Statement.



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Adjustment	2014/15						2015/16					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movemt in Unusable Reserves	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movemt in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>												
Reversal of items debited or credited to the Comprehensive Income and Expenditure Account:												
Charges for depreciation, impairment and amortisation of non-current assets	(38,092)	(10,956)	-	-	-	49,048	(62,814)	20,557	-	-	-	42,257
Revaluation losses on Property Plant and Equipment	(35,222)	-	-	-	-	35,222	(50,210)	-	-	-	-	50,210
Capital grants and contributions applied	85,793	-	-	-	-	(85,793)	79,097	(26)	-	-	-	(79,071)
Capital expenditure funded from revenue	12,425	-	-	-	-	(12,425)	6,267	-	-	-	-	(6,267)
Revenue expenditure funded from capital under statute	(49,968)	-	-	-	-	49,968	(25,445)	-	-	-	-	25,445
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	(12,079)	(7,130)	-	-	-	19,209	(52,187)	(8,559)	-	-	-	60,746
Income recognised in respect of donated assets	184	-	-	-	-	(184)	289	-	-	-	-	(289)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Account:												
Statutory provision for the financing of capital investment	13,288	152	-	-	-	(13,440)	9,950	234	-	-	-	(10,184)
Voluntary provision for the financing of capital expenditure	5,486	-	-	-	-	(5,486)	9,485	-	-	-	-	(9,485)
Capital expenditure charged against the General Fund and HRA balances	724	16,264	-	-	-	(16,988)	-	17,391	-	-	-	(17,391)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>												
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	4,584	8,400	(12,984)	-	-	-	8,772	9,344	(18,116)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	21,305	-	-	(21,305)	-	-	9,256	-	-	(9,256)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1,514)	-	1,514	-	-	-	(1,307)	-	1,307	-	-	-

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Adjustment Continued	2014/15						2015/16					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movemt in Unusable Reserves	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movemt in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>												
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	(5)	-	-	-	-	5	(18)	-	-	-	-	18
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2	-	-	-	-	(2)	1,326	-	-	-	-	(1,326)
<b>Adjustments primarily involving the Major Repairs Reserve:</b>												
Transfer of HRA depreciation costs to Major Repairs Reserve	-	7,513	-	(7,513)	-	-	-	7,568	-	(7,568)	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	7,513	-	(7,513)	-	-	-	7,568	-	(7,568)
<b>Adjustments primarily involving the Capital Grants Unapplied Reserve:</b>												
Capital grants recognised in the year and credited to the Capital Grants Unapplied Reserve	22,424	-	-	-	(22,424)	-	5,695	-	-	-	(5,695)	-
Application of grants to capital financing credited to the Capital Adjustment Account	(21,203)	-	(1,250)	-	22,453	-	(21,620)	-	-	-	21,620	-
<b>Adjustments primarily involving the Financial Instruments Adjustments Account:</b>												
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	(602)	45	-	-	-	557	(583)	(140)	-	-	-	723
<b>Adjustments primarily involving the Pensions Reserve:</b>												
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(61,520)	(7,229)	-	-	-	68,749	(70,861)	(8,027)	-	-	-	78,888
Employer's pensions contributions and direct payments to pensioners payable in the year	34,877	4,099	-	-	-	(38,976)	36,696	4,152	-	-	-	(40,848)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>												
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	(1,411)	-	-	-	-	1,411	(1,737)	-	-	-	-	1,737
<b>Adjustment primarily involving the Accumulated Absences Account:</b>												
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	1,499	(117)	-	-	-	(1,382)	1,236	60	-	-	-	(1,296)
<b>Total Adjustments</b>	<b>(40,330)</b>	<b>11,041</b>	<b>8,585</b>	<b>-</b>	<b>29</b>	<b>20,675</b>	<b>(127,969)</b>	<b>42,554</b>	<b>(7,553)</b>	<b>-</b>	<b>15,925</b>	<b>77,043</b>

## Notes Relating to People and Organisations Connected with the Council

The notes in this section provide information on the Council's key relationships with people and organisations, including:

- Details of organisations or people with which the Council is connected through its elected members and senior officers
- Details of other organisations in which the Council holds a stake
- Details of allowances paid to elected members of the Council
- Details of the remuneration of the Council's senior professional managers
- Details of amounts paid to employees in the year in respect of termination of employment
- Details of the Council's financial obligations under pension schemes

They will help users of the accounts understand how the Council relates to other key organisations in the community and ensures that the Council is transparent about the relationships it has with other organisations, businesses or people where there are overlapping interests.

They also provide users with transparency about the level and nature of amounts paid by the Council to those who are elected to lead it, who manage it, work for it or have left its employment in the year.

### **7. Related Parties**

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions in Part 1 below allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

The Council is also required to disclose interests it holds in companies and other entities – detailed in Part 2 below.

#### **Part 1 - Organisations or individuals which are related parties of the Council**

##### ***Central Government***

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides substantial funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills, housing benefits). Grant funding received from central government is shown within Note 26 to the accounts.

### ***Members and Officers***

Members and senior officers of the Council have direct control of the financial and operating policies of the Council. Members receive allowances for their role and these are detailed in Note 8. Remuneration of senior officers is detailed in Note 9.

All wards in the city are allocated a ward budget of £18k per annum. These budgets are used to fund projects in wards and the allocations are determined by elected members.

Members and officers are also required to disclose any other arrangements giving rise to related party interests:

- A close family member of Cllr Vi Dempster is a substantial shareholder in MK Fabrications, a metal fabrication business which rents commercial premises from the Council. The value of transactions in 2015/16 was £9,629. The property is leased at a market rent
- Cllr Harshad Bhavsar is a Director of YUG Chemicals Ltd, which rents commercial premises from the Council. The value of transactions in 2015/16 was £20,160. The property is leased at a market rent

Members or officers of the Council sit (either in a personal capacity or as representatives of the Council) on the governing bodies of the following organisations in receipt of materially significant funding from the Council:

### ***Leicester Community Sports Arena Ltd & Leicester Riders***

This company was created by the Leicester Riders Foundation to build and operate a new venue for the Leicester Riders basketball team and other community sports. The Community Sports Arena opened in January 2016.

Cllr Piara Singh Clair, the Council's Assistant Mayor for Culture, Leisure & Sport, is one of the four directors of the company (though the Council does not have the right to nominate a director).

The Council owns the land on which the arena is built, which is leased to the company for a market rent. The Council provided £1.5m grant funding to the company to support the development (of which £0.66m was paid in 2015/16), alongside Sport England, Leicester College and the Leicester & Leicestershire Enterprise Partnership (LLEP).

The funding from the LLEP totalled £0.87m in 2015/16 and was paid to the company by the Council in its role as the accountable body for the LLEP. The funding contributed to the development of the arena and supported various outcomes in respect of jobs and local development.

In addition, the Council paid the Leicester Riders £11,319 in 2015/16 for other services including educational and youth programmes commissioned by the City Council.

***Leicester Theatre Trust***

The Leicester Theatre Trust operates the Curve theatre in Leicester. The Council appoints two out of fourteen trustees, currently Cllr Piara Singh Clair and Mike Dalzell, the Council's Director of Tourism, Culture & Inward Investment. The Council provided grant funding and payments for services for the Trust totalling £634k in 2015/16.

***Leicester Arts Centre Ltd***

This is the not-for-profit holding company for the Phoenix Arts Centre in Leicester. The Council appoints two trustees, currently Cllr Bill Shelton and Colin Sharpe (Head of Finance – City Development & Neighbourhoods) The Council provided grant funding and payment for services totalling £298k in 2015/16 and received payments totalling £196k in respect of utilities and other charges relating to the Phoenix building, which the Council owns.

***Leicester Council of Faiths***

Cllrs Manjula Sood and Inderjit Gugnani are respectively the Chair and Secretary of the Leicester Council of Faiths. This umbrella community organisation receives funding from the Council, totalling £27.5k in 2015/16.

***King Richard III Trust***

The King Richard III Trust operates the King Richard III Visitor Centre. It was created in 2013/14. The Council was initially a member of the trust but resigned any formal membership prior to 2015/16. The Council has no nomination rights to the board of the Trust but Cllr Piara Singh Clair sits as a trustee.

**Part 2 - Organisations in which the Council has an interest**

The Council also discloses interests it holds in other organisations, including the value of any material transactions where the other organisation is a related party of the Council.

***Homecome Ltd***

Homecome Ltd is a not-for-profit limited company set up by the Council in spring 2004. Other member bodies include the Leicestershire Chamber of Commerce and the Leicester Federation of Tenants' Associations. The company was set up to create new affordable housing. The Council appoints a director, currently Cllr Andy Connelly, but does not have control or significant influence over the company's affairs.

The Council's investment in Homecome consists of a grant (repayable in certain circumstances) to facilitate the purchase of properties by the company. It is held on the Council's balance sheet at a value of £7.8m.

### ***Connexions Leicester Shire Trading Ltd***

This is a legacy company that was part of the structure by which the Connexions advice service for young people was provided prior to the service being brought back in-house by the city and county councils in 2012/13. Leicester City Council owned 50% of the company.

Connexions Leicester Shire Trading Ltd was wound up during 2015/16 by Members' Voluntary Liquidation and accordingly funds totalling £17.5k were paid to the Council.

### **8. Members' Allowances**

The Council paid the following amounts to members of the Council during the year:

	2014/15 £	2015/16 £
Basic Allowance Payments	540,593	540,726
Special Responsibility Payments	346,910	364,887
General Expense Payments	76,775	76,197
<b>Total</b>	<b>964,278</b>	<b>981,810</b>

### **9. Officers' Remuneration**

This note comprises two parts. The first discloses the remuneration of the Council's most senior officers. The second part discloses the total number of 'higher paid' Council officers whose remuneration exceeded £50k during 2015/16, shown in bands and excluding those senior officers in the first part.

#### **Part 1 - Senior Employees' Remuneration**

The table shows the amounts paid to the holders of senior posts in 2015/16 with comparative data from 2014/15 where applicable.

Senior employees are defined as certain statutory chief officer posts (including the head of paid service), those earning over £150k per annum and those earning less than this sum but reporting directly to the head of paid service (Chief Operating Officer). There are eight such officers, in 2015/16, down from ten in 2014/15.

Remuneration in this table (as defined in statutory regulations) includes salary, fees/allowances, employer's pension contributions, taxable benefits and any compensation for loss of office.

Post	Financial Year	Salary, Fees and Allowances	Expenses	Pension Contributions	Compensation for loss of employment	Total
		£	£	£	£	£
Chief Operating Officer (Head of Paid Service)	2015/16	127,485	-	25,128	-	<b>152,613</b>
	2014/15	127,485	-	25,115	-	<b>152,600</b>
Director Delivery, Communications & Political Governance	2015/16	93,806	-	19,414	-	<b>113,219</b>
	2014/15	86,003	-	16,943	-	<b>102,946</b>
Director of Finance	2015/16	93,864	-	18,099	-	<b>111,963</b>
	2014/15	83,039	-	15,937	-	<b>98,976</b>
City Barrister & Head of Standards (Note 1)	2015/16	70,773	-	14,650	-	<b>85,423</b>
	2014/15	69,732	-	13,737	-	<b>83,469</b>
Strategic Director - Children's Services (Note 2)	2015/16	114,735	-	23,750	-	<b>138,485</b>
	2014/15	59,232	-	11,669	-	<b>70,900</b>
Strategic Director - Adult Social Care & Health (Note 3)	2015/16	53,460	-	11,066	-	<b>64,526</b>
	2014/15	-	-	-	-	-
Strategic Director - City Development & Neighbourhoods	2015/16	118,983	-	24,013	-	<b>142,996</b>
	2014/15	118,983	-	22,902	-	<b>141,885</b>
Director of Public Health (Note 4)	2015/16	64,189	-	13,287	-	<b>77,476</b>
	2014/15	-	-	-	-	-

Notes:

- 1) The City Barrister works on a part time basis
- 2) The Strategic Director of Children's Services was appointed on 18<sup>th</sup> September 2014
- 3) The Strategic Director of Adult Social Care & Health was appointed on 7<sup>th</sup> October 2015
- 4) The Director of Public Health was appointed on 1<sup>st</sup> June 2015 and works on a part time basis

**Part 2 - Higher Paid Employees**

The number of other Council employees receiving more than £50,000 remuneration for the year are shown in the table below. In line with the relevant regulations, they exclude the senior officers in the roles specifically listed in the table above.

These figures include teaching, senior leadership and support staff within Local Authority schools. Employees in schools which become academies are only included if their remuneration during the period of the financial year prior to academy conversion (i.e. when the school was under the Local Authority) exceeds the £50k threshold.



It should be noted that the definition of remuneration in this table differs from that in the table above (in line with regulations) as it excludes employers' pension contributions.

The table does include compensation for loss of office, so employees who left in the year may appear in a higher band than the equivalent role would appear in based on a normal year's salary. Equally, some posts would not be included in the table based on a normal year's salary, but are included because of payments for compensation for loss of office.

The threshold for inclusion in this report is defined in regulations and remains static at £50k annually. Salaries paid to staff include annual pay increases as and when these are awarded, increasing the scope of the report over time.

Remuneration Band £	Number of Employees					
	Non-Schools		Schools		Total	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
50,000-54,999	45	44	51	57	96	101
55,000-59,999	24	24	46	51	70	75
60,000-64,999	27	27	30	27	57	54
65,000-69,999	7	5	26	21	33	26
70,000-74,999	1	4	14	19	15	23
75,000-79,999	2	1	6	9	8	10
80,000-84,999	2	6	4	3	6	9
85,000-89,999	6	5	2	1	8	6
90,000-94,999	-	1	1	2	1	3
95,000-99,999	1	-	3	2	4	2
100,000-104,999	-	-	-	1	-	1
105,000-109,999	-	-	1	-	1	-
110,000-114,999	-	-	1	-	1	-
115,000-119,999	-	-	1	2	1	2
120,000-124,999	-	-	-	-	-	-
125,000-129,999	-	-	1	-	1	-
130,000-134,999	-	-	-	-	-	-
<b>Total</b>	<b>115</b>	<b>117</b>	<b>187</b>	<b>195</b>	<b>302</b>	<b>312</b>

## 10. Termination Benefits

The Council terminated the contracts of a number of employees in 2015/16 incurring liabilities of £2,868k (£3,167k in 2014/15). Of this £1,761k (£2,106k in 2014/15) was for redundancy and other departure costs, and £1,107k (£1,060k in 2014/15) was the cost arising from the early release of pension benefits as required by the regulations of the Local Government Pension Scheme (LGPS).

The number of exit packages with total cost per band and total cost of the exit packages are set out in the table below. In 2015/16 the Council approved 51 compulsory redundancies. Payments arising from these in 2015/16 are included in the figures below:

Band	Total number of exit packages by cost band	Total cost of exit packages 2014/15	Total number of exit packages by cost band	Total cost of exit packages 2015/16
	2014/15	£	2015/16	£
0 - 20,000	181	1,236,180	154	1,228,016
20,001 - 40,000	38	1,053,119	32	866,923
40,001 - 60,000	8	382,760	6	287,540
60,001 - 80,000	6	408,596	4	290,967
80,001 - 100,000	1	85,973	2	194,737
100,001 - 150,000	-	-	-	-
<b>Total</b>	<b>234</b>	<b>3,166,628</b>	<b>198</b>	<b>2,868,183</b>

## 11. Pension Schemes Accounted for as Defined Contribution Schemes

### *Teachers' Pensions*

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, and 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 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 2015/16, the council paid £15.2m to Teachers' Pensions in respect of teachers' retirement benefits, representing 15.48% of pensionable pay. The figures for 2014/15 were £13.9m and 14.1%. Employer Contribution rates changed from 14.1% to 16.48% on 1<sup>st</sup> September 2015. The costs of teacher's retirement benefits for 2016/17 are expected to increase to reflect this change.

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 12.

### *Public Health*

Public Health employees who were compulsorily transferred from the PCTs to the Council who had access to the NHS Pension Scheme on 31<sup>st</sup> March 2013 retained access to that scheme on transfer at 1<sup>st</sup> April 2013. The scheme provides these staff with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is an unfunded defined benefit scheme. However, the Council is not able to identify its share of the underlying financial performance of the Scheme with sufficient reliability for accounting purposes. For the purpose of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2015/16, the Council paid £0.2m to the NHS Pension Scheme in respect of former NHS Staff retirement benefits representing 14.5% of pensionable pay.

## **12. Defined Benefit Pension Schemes**

### ***Participation in Pension Schemes***

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

The Council participates in three post-employment pension schemes:

- Teachers' Pensions Scheme –see Note 11 for further information
- NHS Pension Scheme –see Note 11 for further information
- The Local Government Pension Scheme, (LGPS) administered locally by the Leicestershire County Council – this is a funded defined benefit scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liability with investment assets.

Hymans Robertson, an independent firm of actuaries, has valued the Council's fund asset share and liabilities for the Local Government Pension Scheme

### ***Transactions relating to post-employment benefits (LGPS)***

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by the employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against the council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

	2014/15 £000	2015/16 £000
<b>Comprehensive Income &amp; Expenditure Statement</b>		
Cost of Services		
Current service cost	42,916	53,595
Past service cost	435	619
Settlements and curtailments	(331)	-
<b>Total Service Cost</b>	<b>43,020</b>	<b>54,214</b>
<b>Financing and Investment Income and Expenditure</b>		
Expected return on scheme assets	(35,723)	(31,220)
Interest cost	61,452	55,894
<b>Net Interest Cost</b>	<b>25,729</b>	<b>24,674</b>
<b>Total Post-employment Benefit charged to the Surplus or Deficit on the Provision of Services</b>	<b>68,749</b>	<b>78,888</b>
<b>Other post-employment benefit charged to the Comprehensive Income and Expenditure</b>		
Return on plan assets excluding amounts included in net interest	(96,627)	23,986
Actuarial losses arising from changes in demographic assumptions	-	-
Actuarial losses arising from changes in financial assumptions	242,858	(277,092)
Other Experience adjustments	(8,368)	(18,587)
Effect of business combinations & disposals	-	-
<b>Total remeasurements recognised in other comprehensive income and expenditure statement</b>	<b>137,863</b>	<b>(271,693)</b>
<b>Total post-employment Benefit charged to the Comprehensive Income and Expenditure statement</b>	<b>206,612</b>	<b>(192,805)</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits	29,773	38,040
Actual amount charged against the General Fund Balance for pensions in the year (Employers contributions paid to the scheme)	(38,976)	(40,848)

### ***Assets and Liabilities in Relation to Post-employment Benefits***

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	2014/15 £000	2015/16 £000
Balance at 1st April	<b>1,422,976</b>	<b>1,733,447</b>
Current service cost	42,916	53,595
Past service costs (including curtailments)	435	619
Effect of settlements	(710)	-
Interest cost	61,452	55,894
Contributions by scheme participants	11,233	11,308
Benefits paid	(39,345)	(38,839)
Remeasurements arising from changes in assumptions	234,490	(295,679)
Effect of business combinations and disposals	-	-
<b>Balance at 31st March</b>	<b>1,733,447</b>	<b>1,520,345</b>

Reconciliation of fair value of the scheme (plan) assets:

	2014/15 £000	2015/16 £000
Balance at 1st April	<b>826,184</b>	<b>969,019</b>
Interest income	35,723	31,220
Effect of settlements	(379)	-
Contributions by scheme participants	11,233	11,308
Employer contributions	38,976	40,848
Benefits paid	(39,345)	(38,839)
Effect of business combinations and disposals	-	-
Return on plan assets excluding amounts included in net interest	96,627	(23,986)
<b>Balance at 31st March</b>	<b>969,019</b>	<b>989,570</b>

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.

***Scheme History***

	2011/12 £000	2012/13 £000	2013/2014 £000	2014/15 £000	2015/16 £000
Present value of funded obligations	(962,314)	(1,165,624)	(1,369,228)	(1,676,690)	(1,469,327)
Present value of unfunded obligations	(50,275)	(53,177)	(53,748)	(56,757)	(51,018)
Fair value of assets in the scheme	673,061	784,759	826,184	969,019	989,570
<b>Surplus/(deficit) in the scheme</b>	<b>(339,528)</b>	<b>(434,042)</b>	<b>(596,792)</b>	<b>(764,428)</b>	<b>(530,775)</b>

With effect from 1<sup>st</sup> April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

***Impact on future cash flows***

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £1,520.3m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £530.8m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary. Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31<sup>st</sup> March 2017 is £38.6m.  
The maturity profile is as follows:

	Liability Split	Weighted Average Duration
Active members	58.2%	23.7
Deferred members	16.5%	22.9
Pensioner members	25.3%	11.7
<b>Total</b>	<b>100.0%</b>	<b>19.5</b>

### ***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 dependent on assumptions about mortality rates, salary levels, etc. The fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, based on the latest full valuation of the scheme as at 31<sup>st</sup> March 2014.

The principal assumptions used by the actuary have been:

Local Government Pension Scheme	2014/15	2015/16
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.2	22.2
Women	24.3	24.3
Longevity at 65 for future pensioners:		
Men	24.2	24.2
Women	26.6	26.6
Benefit entitlement assumptions		
Rate of increase in salaries	4.3%	3.2%
Rate of increase in pensions	2.4%	2.2%
Rate for discounting scheme liabilities	3.2%	3.5%
Take-up of option to convert annual pension into retirement lump-sum – relating to service pre April 2008	50.0%	50.0%
Take-up of option to convert annual pension into retirement lump-sum – relating to service post April 2008	75.0%	75.0%

The Local Government Pension Scheme's assets consist of the categories in the table below, by proportion of the total assets held:

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	2014/15		2015/16	
	Bid Values £000	Percentage of Total Assets	Bid Values £000	Percentage of Total Assets
<b>Equity</b>				
Consumer	-	0%	-	0%
Manufacturing	-	0%	-	0%
Energy and Utilities	-	0%	-	0%
Financial Institutions	-	0%	-	0%
Health and Care	-	0%	-	0%
Information Technology	-	0%	-	0%
Other	30,070	3%	27,041	3%
<b>Debt Securities</b>				
UK Government	53,162	5%	52,249	5%
Other	39,846	4%	40,736	4%
<b>Private Equity</b>				
All	36,767	4%	37,990	4%
<b>Real Estate</b>				
UK Property	91,827	10%	100,779	10%
<b>Investment Fund and Unit Trusts</b>				
Equities	488,577	51%	485,478	49%
Bonds	90,262	9%	106,495	11%
Hedge Funds	42,051	4%	44,909	4%
Commodities	40,707	4%	21,267	2%
Infrastructure	22,843	2%	25,842	3%
Other	17,778	2%	27,366	3%
<b>Derivatives</b>				
Interest Rate	5,417	1%	(364)	0%
<b>Cash and Cash Equivalents</b>				
All	9,712	1%	19,783	2%
<b>Total</b>	<b>969,019</b>	<b>100%</b>	<b>989,570</b>	<b>100%</b>



## Notes Relating to Uncertainties, Judgements & Changes Reflected in the Statement of Accounts

The notes in this section provide information on areas of the Councils accounts where judgement and estimation have been used to prepare the financial statements, or where uncertainty about future events has impacted on the financial position presented.

The notes cover:

- The most significant judgements and estimations that underpin the accounts presented, with indications about the potential impact of revisions to these judgements that may result from future events
- Details of the amounts the Council has set aside to meet future liabilities resulting from past events, and details of known potential liabilities that may require resources to be set aside in future
- Details of major changes to the nature of the Council's operations during the year and details of the impact of any changes in accounting policies in the year (though there are no changes to report in 2015/16)
- Details of any events occurring after the financial year end that are pertinent to the reader's understanding of the financial position

They will assist readers in gaining greater understanding of the position presented in the Statement of Accounts and potential areas of change if assumptions are revised

### **13. Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in section 6 of this Statement of Accounts, the Council has had to make certain judgements about complex transactions and/or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

#### **Accounts prepared on a going concern basis**

These accounts have been prepared on a going concern basis. The concept of a going concern assumes that an organisation, its functions and services will continue in operational existence for the foreseeable future. However, there is a high degree of uncertainty about future levels of funding for local government and the future national economic outlook. The Council's management has used its judgement and determined that its financial strategy is robust and that this uncertainty is not yet sufficient to affect the assumptions underpinning the strategy and that the Council will continue as a going concern.

## **Classification of Leases**

The Council is involved in a number of lease arrangements, both as lessee and lessor. The Code requires that leases are classified as either:

- 'Operating', under which the annual payments are disclosed but no additional accounting entries are made, or
- 'Finance', under which the arrangement is treated as the sale or purchase of the asset in question, with the financing element separated. Although in cash terms there are no changes to the structure of the lease, the asset is accounted for separately from the financing and these entries affect the presentation of the lease in the accounts

Since the introduction of the IFRS-based Code, the Council has regularly reviewed the leases it is a party to and has used relevant criteria to assess the nature of each lease. This process has again been undertaken in 2015/16 with judgements being applied to classify leases in line with the guidance and requirements. Details of leases are included in Note 40.

## **Investment Properties**

Note 34 to these accounts clarifies that the Council judges that it does not hold any property or land solely for the purposes of earning rentals or for capital appreciation, (or both). This judgement is based on, and is consistent with, the Code of Practice definition of investment properties, the Royal Institution of Chartered Surveyors (RICS) valuation standard 5.1, and the Property Division's responsibility for providing a property service which, inter alia, supports service delivery.

## **Group Accounts**

From 2012/13 the Council judged that continued preparation of Group Accounts was not necessary under the Code of Practice and was of no material benefit to users of the Statement of Accounts in understanding the Council's financial position. This remains the Council's judgement in 2015/16. Details of associated organisations can be found in Note 7.

## **14. 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 Council 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 Council's Balance Sheet at 31<sup>st</sup> March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant & 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 Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by approximately £0.5m for every year that useful lives had to be reduced.</p>
Fair Value Measurements	Most financial and property assets are now held at Fair Value (see Accounting Policies & Notes 33 & 43 for more information). When there is no quoted market value for an asset, the Council applies other valuation methods in accordance with the Code of Practice and the underlying IFRS 13 standard, but these may incorporate elements of judgement around risks and the basis of assumptions.	It is not possible to quantify the level of variance that may arise if assumptions used differ from actual asset values. The Council is confident, however, that the risk of any differences impacting on the level of usable reserves or the overall financial strategy is low.
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. A firm of consulting actuaries is engaged to provide the Local Government Pension Scheme, administered by Leicestershire County Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. The actuaries have advised that a 0.5% decrease in the Real Discount Rate would mean an 11% increase to the employers liability amounting to approximately £168m. A one year increase in member life expectancy would mean a 3% increase in employers' liability amounting to approximately £46m. A 0.5% increase in the Pension Increase Rate would mean an 8% increase to the employers' liability amounting to £114m. A 0.5% increase in the projected rate of salary increased would lead to an increased liability of 3% or £51m.
PFI Schemes	Total payments due under the existing PFI schemes have to be split between payments for services, reimbursement of capital expenditure, interest, lifecycle costs etc. The split is arrived at by using financial models that contain inherent uncertainties and assumptions.	It is not possible to quantify the potential effect of these uncertainties on the PFI liabilities included in the accounts.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Business Rates Appeals	The authority has applied judgement in calculating the provision for business rate appeals based on data from the Valuation Office Agency (VOA) regarding outstanding appeals where estimates of the likelihood of success, the amount of the reduction and the backdating of the appeal have been based upon averages of historic settled appeals data. Different averages have been calculated for the different types of appeal. The reliability of this estimate is affected by the late submission of a large number of appeals at the end of March 2015. These arose because the Government announced that appeals received after this date could not be backdated.	The provision made by the Council stands at £3.9m at 31 <sup>st</sup> March 2016. This calculation is based on a range of sources including professional advice. If the volume and outcome of appeals differs significantly from the assumptions made then this will impact on whether the level of provision is adequate. It is the Council's judgement that the impact of any error would not have a material impact on these financial statements.

## 15. Provisions

The table below provides a list of provisions made by the authority at the end of the financial year:

	Insurance	Housing Benefits	Equal Pay	s117 Mental Health Act	Housing	Business Rate Appeals	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1st April 2014</b>	<b>5,312</b>	<b>7,217</b>	<b>1,664</b>	<b>675</b>	<b>943</b>	<b>3,553</b>	<b>19,364</b>
Net Movement (additions less amounts used)	-	(857)	(1,414)	(636)	(53)	1,164	(1,796)
<b>Balance at 1st April 2015</b>	<b>5,312</b>	<b>6,360</b>	<b>250</b>	<b>39</b>	<b>890</b>	<b>4,717</b>	<b>17,568</b>
Additional provisions made in 2015/16	-	1,341	-	-	500	-	1,841
Amounts used in 2015/16	(40)	(3,766)	(42)	-	(133)	(787)	(4,768)
<b>Balance at 31st March 2016</b>	<b>5,272</b>	<b>3,935</b>	<b>208</b>	<b>39</b>	<b>1,257</b>	<b>3,930</b>	<b>14,641</b>

These provisions are described in more detail below.

### ***Payment of Insurance Claims***

The Authority holds funds to meet the costs of insurance claims, for both claims received but not yet settled and claims that will be received in the future. The sum of £5.3m is held as a provision, being the amount that the Council's actuaries estimate will be required to meet claims already received. A further sum of £11.1m is held as an earmarked reserve (as per Note 3), to meet the costs of liabilities incurred for which claims have not been received.

### ***Housing Benefit Subsidy Claims***

The Council pays and administers Housing Benefit within Leicester and receives subsidy from the Government to reimburse it for amounts paid out. The amount of subsidy received is based on a claim completed annually.

Claims are subject to audit and often give rise to the discovery of overpayments to some benefits recipients. Though the great majority of these overpayments arise from errors or delays by claimants (rather than the Council), they are hard to recover and there is frequently a cost to the Council arising from the discovery of the errors as part of the audit of the subsidy claim – a provision is maintained based on the total value of the subsidy claims outstanding. The provision currently totals £3.9m

### ***Equal Pay***

The Council has set aside a provision against residual equal pay settlements.

### ***Section 117 Mental Health Act***

The sum is a provision for refunds to people with mental health difficulties who have been charged for residential and nursing care. The sum provided for is based on known cases, and there is a possibility that the Council will be required to make future refunds on these.

### ***Housing Provisions***

The sum is held in respect of liabilities within the Housing service including losses on stock and liabilities to other third parties.

### ***Business Rate appeals***

Along with the introduction of local management of business rates, authorities are expected to finance backdated appeals made in respect of rateable values as defined by the Valuation Office (VOA), outstanding as at 31<sup>st</sup> March 2016. Therefore a provision has been charged to the collection fund calculated at a total of £8.021m (Council share of £3.930m).

## **16. Contingent Liabilities**

### **MIRA Business Park**

The City Council is the accountable body for the Leicester and Leicestershire Enterprise Partnership (LLEP). As part of that role the Council entered into a formal agreement with Hinckley and Bosworth Borough Council (HBBC) on the 17th July 2013 to provide a guarantee relating to the future costs of maintaining highway improvements carried out to the A5 road near to the MIRA Technology Park development.

These works are the subject of a s278 agreement with the Secretary Of State for Transport and require MIRA to pay a commuted lump sum based on the expected development of the Technology Park.

HBBC will assume liability for the payment of any commuted lump sum that remains outstanding ten years after the completion of the works. The guarantee indemnifies HBBC in the event that the development does not proceed as projected, effectively passing the risk to the LLEP and thus the Council as accountable body.

The Council judges that it is more likely than not that this guarantee will not be called upon – as such it is disclosed as a contingent liability only.

### **17. Contingent Assets**

The Council has not recognised any contingent assets at 31<sup>st</sup> March 2016.

### **18. Acquired & Discounted Operations**

There were no acquired or discontinued operations in 2015/16.

### **19. Prior Period Adjustments & Changes**

Prior period adjustments are required when changes to accounting policies, changes to accounting standards or the discovery of material errors mean that the comparative figures for the previous financial year need to be amended in order to provide meaningful comparison for the user of these accounts.

There are no prior period adjustments required in respect of 2014/15 comparative figures.

### **20. Events after the Balance Sheet Date**

On 23<sup>rd</sup> June 2016 the United Kingdom voted to leave the European Union. The outcome of the vote does not affect the Council's accounts for 2015/16 as it occurred after the end of the financial year.

The effects are unclear but it is possible that developments in the aftermath of the vote have had, or will have, an impact on some aspects of the Council's financial position including, but not limited to, the value of property assets, financial instruments and the value of assets held in the pension fund. It is not expected that any such changes will have an impact on the Council's financial strategy or budget position in the short- or medium-term.

At September 2016, there is no indication of any change in the proposed levels of funding from Government to local authorities in the medium term.

## Notes Relating to the Council's Income and Expenditure

The notes in this section provide information on the Council's revenue income and expenditure in the year 2015/16 that form the basis of the Comprehensive Income & Expenditure Statement (CI&ES).

The notes cover:

- A reconciliation between the Council's outturn for the year (as reported in its management accounts) and the Comprehensive Income & Expenditure Statement (CI&ES)
- Detailed breakdowns of the lines within the CI&ES that form part of the surplus or deficit on the provision of services
- Details of the grant funding provided to the Council during the year
- Details of pooled budgets held with partner organisations
- Details of the Council's trading operations and services provided to third parties as an agent
- Other information on specific items of revenue income & expenditure in the year

They will assist readers in gaining greater understanding of the position presented in the Statement of Accounts and the Council's ongoing operations

### **21. Amounts Reported for Resource Allocation Decisions**

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice (SeRCOP).

Decisions about resource allocation were, however, taken by the Council's Executive on the basis of budget reports analysed across departments. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas the impact of depreciation, revaluations and impairments and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- The cost of retirement benefits is based on cash flows paid in the year rather than current service cost of benefits accrued in the year
- Expenditure on some support services is budgeted centrally
- Movements to and from earmarked reserves are included within the analysis presented to management



## Departmental Income and Expenditure

These tables provide a subjective analysis (by type of income or expenditure) of the figures presented to the Council's Executive to show the performance against budget in the year.

The amounts show all costs chargeable against the General Fund in the year and do not include amounts within the Housing Revenue Account or the City's schools. Spend in these areas is reported to management in a different format and is not part of the analysis required in this table.

2015/16	Education & Children's Services	Adult Social Care & Health	City Development & Neighbourhoods (incl Housing)*	Corporate & Resources Support	Total
	£000	£000	£000	£000	£000
Fees, charges & other service income	(19,786)	(15,589)	(76,367)	(19,073)	(130,815)
Government & non-government grants	(96,586)	(58,018)	(10,093)	(140,201)	(304,898)
<b>Total Income</b>	<b>(116,372)</b>	<b>(73,607)</b>	<b>(86,460)</b>	<b>(159,274)</b>	<b>(435,713)</b>
Employee expenses	64,108	34,593	62,999	37,240	198,940
Other service expenses	105,653	121,961	97,421	167,884	492,919
Support service recharges	465	-	345	13,576	14,386
<b>Total Expenditure</b>	<b>170,226</b>	<b>156,554</b>	<b>160,765</b>	<b>218,700</b>	<b>706,245</b>
<b>Net Expenditure</b>	<b>53,854</b>	<b>82,947</b>	<b>74,305</b>	<b>59,426</b>	<b>270,532</b>

2014/15 Comparative Information	Education & Children's Services	Adult Social Care, Health & Housing	City Development & Neighbourhoods	Corporate & Resources Support	Total
	£000	£000	£000	£000	£000
Fees, charges & other service income	(22,573)	(22,071)	(72,176)	(23,756)	(140,576)
Government & non-government grants	(92,054)	(47,767)	(9,760)	(142,113)	(291,694)
<b>Total Income</b>	<b>(114,627)</b>	<b>(69,838)</b>	<b>(81,936)</b>	<b>(165,869)</b>	<b>(432,270)</b>
Employee expenses	61,074	43,142	54,729	38,688	197,633
Other service expenses	106,842	115,494	98,766	188,536	509,638
Support service recharges	391	-	968	13,161	14,520
<b>Total Expenditure</b>	<b>168,307</b>	<b>158,636</b>	<b>154,463</b>	<b>240,385</b>	<b>721,791</b>
<b>Net Expenditure</b>	<b>53,680</b>	<b>88,798</b>	<b>72,527</b>	<b>74,516</b>	<b>289,521</b>



***Reconciliation of Departmental Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement***

This reconciliation shows how the figures in the analysis of departmental income and expenditure relate to the amounts included in the Cost of Services within the Comprehensive Income and Expenditure Statement (the area of the CI&ES relating to the delivery of frontline services).

The table therefore adjusts the figures in the table above to incorporate spend in the HRA and schools reported to management separately from the main General Fund figures.

In addition, the table also incorporates amounts included in the Cost of Services that are not chargeable to the General Fund or HRA balances, including capital charges, actuarial costs of pensions or accrued leave and internal charging of services.

The table also removes the effect of transfers to and from earmarked reserves, which form part of the position presented to management but do not form part of the CI&ES, instead being reflected in the Movement in Reserves Statement.

	2014/15	2015/16
	£000	£000
Net expenditure in the Departmental Analysis	289,521	270,532
Net expenditure of services and support services not included in the analysis	(25,165)	(26,805)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	108,606	96,699
	<b>372,962</b>	<b>340,426</b>
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(52,248)	(38,227)
Allocation of Recharges	-	-
<b>Cost of services in Comprehensive Income and Expenditure Statement</b>	<b>320,714</b>	<b>302,199</b>

***Reconciliation to Subjective Analysis***

This reconciliation shows how the figures in the analysis of departmental income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

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2015/16	Departmental Analysis	Amounts not Reported to Management for Decision Making	Amounts not included in the I&E Statement	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(130,815)	(33,937)	-	-	<b>(164,752)</b>	(233,308)	<b>(398,060)</b>
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	26	26
Income from Council Tax	-	-	-	-	-	(89,362)	<b>(89,362)</b>
Government grants & contributions	(304,898)	(275,065)	-	-	<b>(579,963)</b>	(225,039)	<b>(805,002)</b>
<b>Total Income</b>	<b>(435,713)</b>	<b>(309,002)</b>	-	-	<b>(744,715)</b>	<b>(547,683)</b>	<b>(1,292,398)</b>
Employee Expenses	198,940	217,521	-	-	<b>416,461</b>	11,164	<b>427,625</b>
Other Service Expenses	492,919	56,844	(38,228)	69,428	<b>580,963</b>	222,143	<b>803,106</b>
Support Service Recharges	14,386	55,042	-	(69,428)	-	-	-
Depreciation, Amortisation and Impairments	-	49,490	-	-	<b>49,490</b>	-	<b>49,490</b>
Interest Payments	-	-	-	-	-	20,320	<b>20,320</b>
Pensions Interest Costs and expected return on pension	-	-	-	-	-	24,674	<b>24,674</b>
Precepts and Levies	-	-	-	-	-	75	<b>75</b>
Payments to Housing Capital Receipts Pool	-	-	-	-	-	1,307	<b>1,307</b>
Costs of Sale-Assets held for sale & Other Operating Income & Expenditure	-	-	-	-	-	1,548	<b>1,548</b>
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	44,277	<b>44,277</b>
<b>Total Expenditure</b>	<b>706,245</b>	<b>378,897</b>	<b>(38,228)</b>	-	<b>1,046,914</b>	<b>325,508</b>	<b>1,372,422</b>
<b>Net Expenditure</b>	<b>270,532</b>	<b>69,895</b>	<b>(38,228)</b>	-	<b>302,199</b>	<b>(222,175)</b>	<b>80,024</b>

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2014/15	Departmental Analysis	Amounts not Reported to Management for Decision Making	Amounts not included in the I&E Statement	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(140,577)	(22,683)	-	-	(163,260)	(227,984)	(391,244)
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	(1,505)	(1,505)
Income from Council Tax	-	-	-	-	-	(85,528)	(85,528)
Government grants & contributions	(291,694)	(257,932)	-	-	(549,626)	(284,670)	(834,296)
HRA transfer to/from Reserves	-	-	-	-	-	-	-
<b>Total Income</b>	<b>(432,271)</b>	<b>(280,615)</b>	-	-	<b>(712,886)</b>	<b>(599,687)</b>	<b>(1,312,573)</b>
Employee Expenses	197,633	212,746	-	-	410,379	10,906	421,285
Other Service Expenses	509,638	31,821	(52,248)	84,962	574,173	217,079	791,252
Support Service Recharges	14,521	70,441	-	(84,962)	-	-	-
Depreciation, Amortisation and Impairments	-	49,048	-	-	49,048	-	49,048
Interest Payments	-	-	-	-	-	20,741	20,741
Pensions Interest cost & expected return on pension assets	-	-	-	-	-	25,729	25,729
Precepts and Levies	-	-	-	-	-	75	75
Payments to Housing Capital Receipts Pool	-	-	-	-	-	1,514	1,514
Costs of Sale-Assets held for sale & Other Operating Income & Expenditure	-	-	-	-	-	1,978	1,978
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	5,962	5,962
<b>Total Expenditure</b>	<b>721,792</b>	<b>364,056</b>	<b>(52,248)</b>	-	<b>1,033,600</b>	<b>283,984</b>	<b>1,317,584</b>
<b>Net Expenditure</b>	<b>289,521</b>	<b>83,441</b>	<b>(52,248)</b>	-	<b>320,714</b>	<b>(315,703)</b>	<b>5,011</b>

## **22. Other Operating Expenditure**

	2014/15 £000	2015/16 £000
Levies	75	75
Payments to the government Housing Capital Receipts Pool	1,514	1,307
Total gains/losses on the disposal of non-current assets	5,963	44,277
Costs of sale – assets held for sale	264	7
Other operating income and expenditure	1,714	1,541
<b>Total</b>	<b>9,530</b>	<b>47,207</b>

## **23. Financing and Investment Income and Expenditure**

	2014/15 £000	2015/16 £000
Interest payable and similar charges	20,741	20,320
Pensions interest cost and expected return on pensions assets	25,729	24,674
Interest receivable and similar income	-	-
(Surplus)/deficit on trading operations	(1,505)	25
<b>Total</b>	<b>44,965</b>	<b>45,019</b>

## **24. Taxation and Non-Specific Grant Income**

	2014/15 £000	2015/16 £000
Council Tax income	(85,528)	(89,362)
Non domestic rates	(89,246)	(93,423)
Non-ringfenced government grants	(118,851)	(90,389)
Capital grants and contributions	(76,389)	(40,938)
Donated Assets	(184)	(289)
<b>Total</b>	<b>(370,198)</b>	<b>(314,401)</b>

## **25. Material Items of Income and Expense**

There are no material items of income or expenditure to disclose.

## **26. Grant Income**

The Council received the following revenue and capital grants in 2015/16.

These grants are analysed between those credited to the Comprehensive Income and Expenditure Statement and those held as receipts in advance, in line with the Council's accounting policies.

**Capital grants recognised in the year**

	2014/15 £000	2015/16 £000
<b>Credited to Services (All REFCUS related)</b>		
Regional Growth Fund	8,289	10,049
Local Growth Fund	-	6,724
DFE Basic Need Grant	-	2,223
Devolved Formula Capital Grant	-	1,264
Disabled Facilities Grant	-	1,001
Devolved Formula Capital Grant - School Contributions	-	677
DCLG City Deal for LLEP	1,800	200
DFT Cleaner Bus Technology Grant	-	92
DCLG Household Waste Recycling Centre	2,515	-
Building Schools for the Future	475	-
Heritage Lottery Fund	405	-
DFT Maintenance Grant	180	-
Working Neighbourhood Fund	168	-
Sustrans Grant	163	-
Others	108	-
<b>Total Credited to Services</b>	<b>14,103</b>	<b>22,230</b>

	2014/15 £000	2015/16 £000
<b>Credited to Taxation &amp; Non-Specific Grant Income</b>		
Building Schools for the Future	33,731	-
Local Growth Fund	-	18,931
European Regional Development Fund	6,964	4,155
DFE Basic Need Grant	10,195	4,380
DFE Capital Maintenance Grant	4,542	3,874
DFT Maintenance Grant	2,291	3,541
DFT Integrated Transport Grant	4,171	2,556
Insurance Proceeds re Catherine Junior School	-	1,500
Adult Social Care Grants	863	876
DfCM&S Broadband Delivery UK Funding	-	626
De Montfort University	-	175
DFT Local Sustainable Transport Fund	745	83
Heritage Lottery Fund	-	59
DEFRA Grants	-	31
S106 Contributions	-	29
Leicestershire County Council	-	20
Leicester Cathedral	-	18
Devolved Formula Capital Grant	3,174	-
HCA Empty Homes Leasing	2,277	-
HCA Travellers Sites	1,828	-
S106 Contributions	901	-
DCLG Household Waste	901	-
Disabled Facilities Grant	867	-
DFT Pothole Monies	646	-
Working Neighbourhood Fund	236	-
DFE Priority School Building Programme	180	-
Other	1,877	84
<b>Total Credited to Taxation &amp; Non-Specific Grant Income</b>	<b>76,389</b>	<b>40,938</b>

### Capital grants received in advance

The Council has received a number of capital grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that have not yet been met. The balances at the year-end are as follows:

	2014/15 £000	2015/16 £000
<b>Capital Grants Receipts in Advance</b>		
Devolved Formula Capital Grant	3,305	2,962
DFT Bus Pinch Point Grant	1,100	-
DFT Severe Weather Capital Maintenance Allocation	92	92
DFT Cleaner Bus Technology Grant	71	184
DFT Local Sustainable Transport Fund	-	13
S106 Contributions	-	10
Others	(80)	(28)
<b>Total Capital Grants Receipts in Advance</b>	<b>4,488</b>	<b>3,233</b>
Capital Receipts not Recognised	-	665
<b>Total Received in Advance</b>	<b>4,488</b>	<b>3,898</b>

### Revenue grants recognised in the year

	2014/15 £000	2015/16 £000
<b>Credited to Taxation &amp; Non-Specific Grant Income</b>		
Revenue Support Grant	108,651	78,161
Section 31 Grants	4,346	4,538
Local Services Support Grant	148	93
New Homes Bonus Scheme	6,224	7,585
Other	-	12
<b>Total Credited to Taxation &amp; Non-Specific Grant Income</b>	<b>119,369</b>	<b>90,389</b>
<b>Credited to Services</b>		
<b>Children's and Education Services</b>		
Pupil Premium	18,705	18,636
Dedicated Schools Grant (see note 37)	251,915	260,267
Other Education	32,417	33,082
<b>Adults and Housing</b>		
Drug Intervention Programme	1,160	-
Adult Pooled Treatment	3,070	-
Housing Benefit Subsidies	133,608	134,350
Other Adults and Housing	9,670	4,206
<b>Public Health</b>		
Public Health Grant	21,995	24,578
<b>City Development and Neighbourhoods</b>		
Waste PFI	2,074	2,074
Other City Development and Neighbourhoods	3,433	3,185
<b>Corporate and Resources</b>		
Housing Benefit & Council Tax benefit Admin Grant	2,158	2,031
Community Care Grant	2,900	813
Elections	590	696
Waste PFI	-	517
Other Corporate and Resources	222	601
<b>Total Credited to Services</b>	<b>483,917</b>	<b>485,036</b>

### Revenue grants received in advance

The Council has received a number of revenue grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that have not yet been met. The balances at the year-end are as follows:

	2014/15 £000	2015/16 £000
<b>Children's and Education Services</b>		
Early Intervention Grant	2,915	2,915
<b>Adults and Housing</b>		
Social Care Reform	826	518
Other Adults and Housing	1,653	2,443
<b>City Development and Neighbourhoods</b>		
City Development and Neighbourhoods	976	1,689
<b>Corporate and Resources</b>		
Other Resources	36	-
<b>Total Receipts in Advance</b>	<b>6,406</b>	<b>7,565</b>

### 27. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the Schools and Early Years Finance (England) Regulations 2014. The Schools Budget includes elements for a range of educational services provided on a council 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 2015/16 are as follows:

2015/16	Central Expenditure £000	Individual Schools Budget £000	Total £000
<b>Final DSG for 2015/16 before Academy recoupment</b>			<b>274,355</b>
Academy figure recouped for 2015/16			(17,208)
<b>Total DSG after Academy recoupment for 2015/16</b>			<b>257,147</b>
Brought forward from 2014/15			19,802
Carry forward to 2016/17 agreed in advance			-
<b>Agreed initial budgeted distribution in 2015/16</b>	<b>62,276</b>	<b>214,673</b>	<b>276,949</b>
In year adjustments	-	-	-
<b>Final budgeted distribution for 2015/16</b>	<b>62,276</b>	<b>214,673</b>	<b>276,949</b>
Actual central expenditure for the year	(45,571)	-	(45,571)
Actual ISB deployed to schools	-	(214,673)	(214,673)
Local Authority contribution for 2015/16	-	-	-
<b>Carry forward to 2016/17</b>	<b>16,705</b>	<b>-</b>	<b>16,705</b>

2014/15 Comparative Information	Central Expenditure £000	Individual Schools Budget £000	Total £000
<b>Final DSG for 2014/15 before Academy recoupment</b>			<b>264,731</b>
Academy figure recouped for 2014/15			(7,573)
<b>Total DSG after Academy recoupment for 2014/15</b>			<b>257,158</b>
Brought forward from 2012/13			14,585
Carry forward to 2015/16 agreed in advance			-
<b>Agreed initial budgeted distribution in 2014/15</b>	<b>61,378</b>	<b>210,365</b>	<b>271,743</b>
In year adjustments	-	-	-
<b>Final budgeted distribution for 2014/15</b>	<b>61,378</b>	<b>210,365</b>	<b>271,743</b>
Actual central expenditure for the year	(41,576)	-	(41,576)
Actual ISB deployed to schools	-	(210,365)	(210,365)
Local Authority contribution for 2014/15	-	-	-
<b>Carry forward to 2015/16</b>	<b>19,802</b>	<b>-</b>	<b>19,802</b>

## 28. Pooled Budgets

The Council has entered into the following pooled budget arrangements under Section 75 of the Health Act 2006:

### *Supply of Community Equipment*

This is an arrangement for the supply of community equipment with Leicestershire County Council, Rutland County Council and the three Clinical Commissioning Group's (CCG's) in the areas covered by the councils. Leicester City Council acts as the host partner.

The Council contributed £0.92m (Adult Social Care contribution of £0.89m and Education contribution of £0.03m) to the pool during 2015/16 (£0.88m in 2014/15 of which Adult Social Care contributed £0.83m and Education contributed £0.05m) and this expenditure is also included in the Adult Social Care line and the Education of the Comprehensive Income and Expenditure Statement.

	2014/15 £000	2015/16 £000
<b>Funding provided to the pooled budget:</b>		
Leicester City Council	879	920
Leicestershire County Council	1,690	1,462
Rutland County Council	91	93
Leicester City CCG	1,637	1,229
East Leicestershire and Rutland CCG	1,922	1,356
West West Leicestershire CCG	2,116	1,408
<b>Total Funding provided to the pooled budget</b>	<b>8,335</b>	<b>6,468</b>
<b>Total Expenditure met from the pooled budget</b>	<b>8,335</b>	<b>6,468</b>



### ***Drugs and Alcohol Pooled Budget***

This is an arrangement for the implementation of the Governments National Drugs and Alcohol Strategies. As the host and responsible body, Leicester City Council manages funding from the National Offender Management Service, Leicestershire/Rutland County Councils and Police and Crime Commissioner. The service commissions of a range of health and social care interventions for individuals with problematic substance misuse issues. The City Council contributed £6.3m from the Public Health grant to the pool during 2015/16 (£6.3m in 2014/15) and this expenditure is also included in the Public Health line of the Comprehensive Income and Expenditure Statement.

	2014/15 £000	2015/16 £000
<b>Funding provided to the pooled budget:</b>		
Leicester City Council	-	-
Leicester City Council - Public Health	6,283	6,283
Leicestershire County Council - Public Health	888	888
Rutland County Council - Public Health	46	46
Leicestershire Police and Crime Commissioner	509	509
NHS England	651	650
Leicester Primary Care Trust	963	-
<b>Total Funding provided to the pooled budget</b>	<b>9,340</b>	<b>8,376</b>
<b>Total Expenditure met from the pooled budget</b>	<b>9,340</b>	<b>8,376</b>

### ***Better Care Fund***

This is an arrangement between Leicester City Council and the NHS Leicester City Clinical Commissioning Group (LCCCG) to meet the aims and benefits prescribed in the section 75 agreement by delivering a robust and more integrated service between health and social care.

The Council acts as the host partner. The Better Care Fund (BCF) has been established by the Government to provide funds to local areas to support the integration of health and social care and to seek the National Conditions and Local Objectives. It is a requirement of the BCF that the LCCCG and the Council establish a pooled fund/budget for this purpose.

In 2015/16, total revenue funds of £21.4m were pooled, of which, £4.3m was attributed to LCCCG, £2.6m was attributed to Leicestershire Partnership Trust (LPT) and £14.5m was attributed to The Council. The cost of services provided and managed by the Council will be included in the Adult Social Care line of the Comprehensive Income and Expenditure Statement.

Also included in the pool is £1.9m capital grant which comes directly to the Council, of which, £1.0m comes as DFG (Disabled Facilities Grant) grant from the DCLG (Department for Communities and Local Government) and £0.9m comes as Social Care Capital Grant from DH (Department of Health). The DFG grant is allocated to the Housing department and the Social Care Capital Grant is allocated to Adult Social Care.

	2015/16 £000
<b>Income:</b>	
Revenue	21,384
Capital	1,877
<b>Total Income</b>	<b>23,261</b>
<b>Expenditure:</b>	
<b>Revenue</b>	
Actual Spend incurred by LCC managed schemes	14,496
Actual Spend incurred by LCCCG & LPT (Leicestershire Partnership Trust)	6,238
<b>Total Revenue Expenditure</b>	<b>20,734</b>
<b>Capital:</b>	
DFG allocated to Housing Services capital programme	1,001
Social Care Grant allocated to Adult Social Care capital programme	876
<b>Total Capital Expenditure</b>	<b>1,877</b>
<b>Total Expenditure</b>	<b>22,611</b>
<b>Net outturn over/(under) spend:</b>	
<b>Revenue*</b>	<b>(650)</b>
<b>Capital</b>	<b>-</b>
* Two schemes managed by LCCCG reported an underspend:	
Integrated Mental Health stepdown service scheme	(300)
GP scheme	(350)
<b>Net Revenue Underspend</b>	<b>(650)</b>

## 29. Trading Operations

The net surpluses and deficits of the Council's trading operations are shown in the Comprehensive Income and Expenditure Statement. This note provides a more detailed breakdown of the financial performance of these trading activities. The Council manages five trading operations which provide internal support to front line services. Trading operations are given a targeted budget position to work towards, which may be a surplus, deficit or break-even.

	2014/15			2015/16		
	Turnover	Expenditure	(Surplus)/ Deficit	Turnover	Expenditure	(Surplus)/ Deficit
	£000	£000	£000	£000	£000	£000
City Catering	(7,749)	7,749	-	(8,025)	8,025	-
City Highways	(9,167)	9,218	51	(8,686)	8,832	146
City Transport Fleet	(7,324)	5,742	(1,582)	(4,650)	4,762	112
Passenger and Transport	(5,277)	5,166	(111)	(287)	176	(111)
I.T. Services	(1,243)	1,378	135	(1,132)	1,010	(122)
<b>Total</b>	<b>(30,760)</b>	<b>29,253</b>	<b>(1,507)</b>	<b>(22,780)</b>	<b>22,805</b>	<b>25</b>

### **City Catering**

The Council owns and manages the City Catering Service, generating income from catering services, including those provided to schools. Management of the service is provided by an in-house team.

### **City Highways**

City Highways is a front line service undertaking highway maintenance and construction activities ranging in scope from small repairs to large projects such as the City Centre paving works and also some work requested by external organisations. City Highways provides the Council's winter maintenance road gritting service and the Council's land drainage service. In addition the service acts as the Council's initial emergency responder to flooding, drainage and highway incidents and provides an out-of-hours emergency standby service in this respect.

### **City Transport Fleet**

City Transport Fleet is responsible for the centralised provision and maintenance of the Council's Central Vehicle Pool and grant-aided vehicles. Hired vehicles, provision of fuel and a vehicle wash facility are available to user sections.

### **Passenger and Transport Services**

Passenger and Transport Services provide a specialist operational transport service to social and community groups for example meals on wheels and special needs education clients.

### **I.T. Services**

The service procures and commissions IT equipment across the Council. It also provides Technical Education Support to schools.

## **30. Agency Services**

The Council provides payroll services for the Samworth Enterprise Academy, Harborough District Council, Ash Field Academy, Sacred Heart Catholic Voluntary Academy, St. Joseph's Catholic Voluntary Academy, St. Thomas More Catholic Voluntary Academy, Humberstone Academy and Falcons Primary Free School involving the following expenses and charges:

	2014/15 £000	2015/16 £000
Expenditure incurred in providing payroll services to Samworth Enterprise Academy	3.1	2.3
Amount charged to Samworth Enterprise Academy	(3.1)	(2.3)
<b>Net Surplus</b>	-	-

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	2014/15 £000	2015/16 £000
Expenditure incurred in providing payroll services to Harborough District Council	13.6	10.2
Amount charged to Harborough District Council	(13.6)	(10.2)
<b>Net Surplus</b>	-	-

	2014/15 £000	2015/16 £000
Expenditure incurred in providing payroll services to Ash Field Academy	5.1	3.6
Amount charged to Ash Field Academy	(5.1)	(3.6)
<b>Net Surplus</b>	-	-

	2014/15 £000	2015/16 £000
Expenditure incurred in providing payroll services to Sacred Heart Catholic Voluntary Academy	2.5	1.7
Amount charged to Sacred Heart Catholic Voluntary Academy	(2.5)	(1.7)
<b>Net Surplus</b>	-	-

	2014/15 £000	2015/16 £000
Expenditure incurred in providing payroll services to St. Joseph's Catholic Voluntary Academy	3.2	2.9
Amount charged to St. Joseph's Catholic Voluntary Academy	(3.2)	(2.9)
<b>Net Surplus</b>	-	-

	2014/15 £000	2015/16 £000
Expenditure incurred in providing payroll services to St. Thomas More Catholic Voluntary Academy	3.2	1.6
Amount charged to St. Thomas More Catholic Voluntary Academy	(3.2)	(1.6)
<b>Net Surplus</b>	-	-

	2014/15 £000	2015/16 £000
Expenditure incurred in providing payroll services to Humberstone Academy	4.2	6.1
Amount charged to Humberstone Academy	(4.2)	(6.1)
<b>Net Surplus</b>	-	-

	2014/15 £000	2015/16 £000
Expenditure incurred in providing payroll services to Falcons Primary Free School	2.1	1.8
Amount charged to Falcons Primary Free School	(2.1)	(1.8)
<b>Net Surplus</b>	-	-

### 31. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors:

	2014/15 £000	2015/16 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	203	147
Fees payable for the certification of grant claims and returns for the year	70	58
Fees payable in respect of other services provided during the year	11	12
<b>Total</b>	<b>284</b>	<b>217</b>

### 32. Road Charging Schemes under the Transport Act 2000

The Council does not operate any road charging or workplace charging schemes.

## Notes Relating to the Council's Property and Other Non-Financial Assets

The notes in this section provide information on the Council's property and other non-financial assets. The notes cover:

- Changes in the value of Property, Plant & Equipment assets in the year, whether due to acquisition, disposal, impairment or revaluation
- Information on the value and nature of other asset classes including intangible assets (such as software licenses), heritage assets (Items of civic interest held on behalf of the city) and assets acquired or disposed of under lease arrangements
- Information on assets the Council recognises as provided under Private Finance Initiative (PFI) schemes, including the Building Schools for the Future scheme

They will assist readers in gaining greater understanding of the assets used to deliver the Council's services and how the Council's asset base has changed in the year.

### 33. Property, Plant & Equipment

The first table in this note illustrates the change in the value of the Council's property, plant and equipment assets during 2015/16. The note subsequently provides additional detail on the basis for valuations of these assets and future capital expenditure already committed.

Movements on Balances in 2015/16	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	Service Concession Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>									
At 1st April 2015	630,632	1,138,571	80,139	258,166	1,956	82,845	10,023	<b>2,202,332</b>	99,070
Additions	24,049	22,808	3,676	23,645	103	5,695	13,410	<b>93,386</b>	-
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	-	106,450	-	-	310	4,690	-	<b>111,450</b>	5,086
Revaluation Increases/(Decreases) recognised in the Surplus/Deficit on the Provision of Services	15,206	(72,364)	(979)	(13,320)	(214)	(5,384)	(63)	<b>(77,118)</b>	10,042
De-recognition – disposals	(8,559)	(43,856)	-	-	-	(1,811)	-	<b>(54,226)</b>	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	841	-	<b>841</b>	-
Asset reclassified (other)	-	(9,337)	-	(213)	120	8,430	-	-	-
Other movements in cost or valuation	-	(429)	-	-	-	-	-	<b>(429)</b>	-
<b>As at 31st March 2016</b>	<b>661,328</b>	<b>1,141,843</b>	<b>82,836</b>	<b>268,278</b>	<b>3,275</b>	<b>95,306</b>	<b>23,370</b>	<b>2,276,236</b>	<b>114,198</b>
<b>Accumulated Depreciation &amp; Impairment</b>									
At 1st April 2015	(6,797)	(47,147)	(47,961)	(42,642)	-	(144)	-	<b>(144,691)</b>	(10,861)
Depreciation Charge	(6,796)	(18,002)	(7,181)	(6,253)	-	(170)	-	<b>(38,402)</b>	(3,720)
Depreciation written out to the Revaluation Reserve	-	25,548	-	-	-	34	-	<b>25,582</b>	5,523
Depreciation written out to the Surplus/Deficit on the provision of services	13,593	10,479	-	-	10	43	-	<b>24,125</b>	1,110
De-recognition – disposals	-	321	-	3	(16)	206	-	<b>514</b>	-
Other movements in depreciation	-	429	-	-	-	-	-	<b>429</b>	-
<b>As at 31st March 2016</b>	<b>-</b>	<b>(28,372)</b>	<b>(55,142)</b>	<b>(48,892)</b>	<b>(6)</b>	<b>(31)</b>	<b>-</b>	<b>(132,443)</b>	<b>(7,948)</b>
<b>Net Book Value as at 31st March 2016</b>	<b>661,328</b>	<b>1,113,471</b>	<b>27,694</b>	<b>219,386</b>	<b>3,269</b>	<b>95,275</b>	<b>23,370</b>	<b>2,143,793</b>	<b>106,250</b>
As at 1st April 2015	623,835	1,091,424	32,178	215,524	1,956	82,701	10,023	<b>2,057,641</b>	88,209

2014/15 Comparative Movements	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	Service Concession Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>									
At 1st April 2014	614,999	1,032,348	74,584	244,561	1,785	86,339	19,257	2,073,873	109,655
Additions	29,533	57,760	5,564	13,613	468	8,038	20,250	135,226	161
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	-	63,247	-	(44)	171	4,237	-	67,611	-
Revaluation Increases/(Decreases) recognised in the Surplus/Deficit on the Provision of Services	(6,769)	(32,877)	(9)	(621)	(4,062)	(10,955)	-	(55,293)	(10,746)
De-recognition – disposals	(7,131)	(7,783)	-	-	-	(5)	-	(14,919)	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-	-
Asset reclassified (other)	-	25,876	-	657	3,594	(4,809)	(29,484)	(4,166)	-
Other movements in cost or valuation	-	-	-	-	-	-	-	-	-
<b>As at 31st March 2015</b>	<b>630,632</b>	<b>1,138,571</b>	<b>80,139</b>	<b>258,166</b>	<b>1,956</b>	<b>82,845</b>	<b>10,023</b>	<b>2,202,332</b>	<b>99,070</b>
<b>Accumulated Depreciation &amp; Impairment</b>									
At 1st April 2014	(6,646)	(41,949)	(40,003)	(36,607)	-	(103)	-	(125,308)	(7,041)
Depreciation Charge	(6,796)	(17,171)	(7,958)	(5,910)	-	(79)	-	(37,914)	(3,820)
Depreciation written out to the Revaluation Reserve	-	8,391	-	2	-	4	-	8,397	-
Depreciation written out to the Surplus/Deficit on the provision of services	6,645	3,341	-	8	-	9	-	10,003	-
De-recognition – disposals	-	241	-	(135)	-	25	-	131	-
<b>As at 31st March 2015</b>	<b>(6,797)</b>	<b>(47,147)</b>	<b>(47,961)</b>	<b>(42,642)</b>	<b>-</b>	<b>(144)</b>	<b>-</b>	<b>(144,691)</b>	<b>(10,861)</b>
<b>Net Book Value as at 31st March 2015</b>	<b>623,835</b>	<b>1,091,424</b>	<b>32,178</b>	<b>215,524</b>	<b>1,956</b>	<b>82,701</b>	<b>10,023</b>	<b>2,057,641</b>	<b>88,209</b>
As at 31st March 2014	608,353	990,399	34,581	207,954	1,785	86,236	19,257	1,948,565	102,614

### Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings – between 25-75 years
- Other Land and Buildings – up to 50 years, depending on the asset
- Vehicles, Plant, Furniture & Equipment – 5-7 years
- Infrastructure – 40 years

### **Capital Commitments**

At 31<sup>st</sup> March 2016, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and 2017/18. Similar commitments at 31<sup>st</sup> March 2015 were £21.9m. The major commitments are:

<b>Contract for Capital Investment</b>	<b>Period</b>	<b>£000</b>
20-40 New Walk	2016-17	3,075
Waterside - Friars Mill	2017-18	1,839
Victoria Park - Centenary Walk	2017-18	1,794
Wolsey House Primary - phases 1 and 2	2016-17	1,491
Kestrel Fields Infants	2016-17	1,010
Eyres Monsell Primary	2016-17	800
Street Lighting	2016-17	800
Haymarket Bus Station	2016-17	772
Fullhurst Community College	2016-17	628
MIRA - Technology Enterprise Zone	2016-17	530
Victoria Park Gates	2017-18	524
Hastings Road Day Centre	2016-17	424
Kestrel Fields Primary	2016-17	300
Whitehall Primary School	2016-17	200
Outdoor Pursuit Centre	2016-17	182
Westgate BSF	2016-17	150
New College BSF	2016-17	149
Aylestone Leisure Centre	2016-17	135
Belgrave Road Toilets	2016-17	132
Leicester Leys Leisure Centre	2016-17	123
Sir Jonathan North BSF	2016-17	116
Janazagh - Muslim Prayer House	2016-17	100
<b>Total</b>		<b>15,274</b>

Commitments relating to Finance Lease and PFI type schemes are included in Notes 40 and 41.

### **Revaluations**

The Council carries out a rolling programme that ensures that all property and land (subject to a de minimis of £10k for asset values) required to be measured at current value is revalued at least every five years. Exceptions to this are shown in the table below.

In practice all property and land assets that are valued using Fair Value are subject to annual review. They are initially valued as at the 1st April of the financial year but are adjusted if appropriate to ensure that the valuation is still accurate at the financial year end.

Valuations of Council Dwellings are carried out by a specialist external valuer each year. All other valuations were carried out internally. The officer who carried out



these valuations is an accredited valuer chartered member of the Royal Institution of Chartered Surveyors (RICS).

Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of RICS. Valuations of the majority of vehicles, plant, equipment and furniture, and of infrastructure, are based on historical cost.

2015/16 Valuation Dates	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	-	16,716	24,330	216,585	40	185	23,370	<b>281,226</b>
Valued at fair or nominal value as at:								
Pre 1st April 2009	-	108	-	-	18	-	-	<b>126</b>
1st April 2009	-	5,756	-	-	970	-	-	<b>6,726</b>
1st April 2010	-	16,920	-	-	-	-	-	<b>16,920</b>
1st April 2011	-	83,481	3,364	-	10	-	-	<b>86,855</b>
1st April 2012	-	48,671	-	517	390	36	-	<b>49,614</b>
1st April 2013	-	47,219	-	1,712	713	837	-	<b>50,481</b>
1st April 2014	-	122,155	-	572	419	3,542	-	<b>126,688</b>
1st April 2015	-	772,445	-	-	709	90,675	-	<b>863,829</b>
Valued @ 31 March 2016	661,328	-	-	-	-	-	-	<b>661,328</b>
<b>Total</b>	<b>661,328</b>	<b>1,113,471</b>	<b>27,694</b>	<b>219,386</b>	<b>3,269</b>	<b>95,275</b>	<b>23,370</b>	<b>2,143,793</b>

The valuations have been made on the following assumptions:

- a. No high alumina cement, asbestos or other deleterious material was used in the construction of any property and that none has been subsequently incorporated.
- b. As regards asbestos, the Council maintains a register of those properties that contain asbestos as part of an active management programme. The impact on valuation has therefore been disregarded.
- c. That the properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoing and that good title can be shown.
- d. That the properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and that the use and occupation are both legal.
- e. That there are no adverse soil and ground conditions and that there is no effect from contaminated land.

- f. That no allowances have been made for any rights, obligations or liabilities arising from the Defective Premises Act 1972, The Equalities Act 2010, Health & Safety at Work Act or the Offices, Shops and Railway Premises Act or any amended legislation.
- g. That inspection of those parts which have not been inspected would not cause us to alter our opinion or value.

The valuation of Council Dwellings is based on guidance issued by the Department of Communities and Local Government for stock valuation.

### **34. Investment Properties**

The Code of Practice on Local Authority Accounting (2015/16) defines Investment Property as “property used solely to earn rentals or for capital appreciation or both.” All the land or buildings that the Council holds are for economic support reasons even if they earn rentals or appreciate over time. Accordingly no investment properties are identified in the Balance Sheet.

### **35. Intangible Assets**

The Council accounts for its computer software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licenses and application software.

At present all of the Council’s intangible assets are amortised over 5 years on a straight-line basis.

None of the Council’s intangible assets have been internally generated.

	2014/15 £000	2015/16 £000
Balance at 1st April		
Gross Carrying Amounts	2,558	3,107
Accumulated Amortisation	(867)	(1,316)
<b>Net carrying amount at start of year</b>	<b>1,691</b>	<b>1,791</b>
Additions (Purchases)	594	310
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	(45)	(309)
Amortisation applied in Year	(449)	(590)
<b>Gross Carrying Amount at 31st March</b>	<b>3,107</b>	<b>3,108</b>
Accumulated Amortisation	(1,316)	(1,906)
<b>Net Carrying Amount at 31st March</b>	<b>1,791</b>	<b>1,202</b>

### 36. Heritage Assets

#### *Reconciliation of the Carrying Value of Heritage Assets Held by the Council*

Movement on Balances 2015/16	Buildings	Civic Silver	Museum Exhibits	Statues & Monuments	Total Assets
<b>Cost or Valuation</b>					
At 1st April 2015	2,657	1,471	71,391	5,876	81,395
Additions	-	-	1,266	-	1,266
Disposals	-	-	(43)	-	(43)
Revaluations	-	-	26,398	-	26,398
<b>As at 31st March 2016</b>	<b>2,657</b>	<b>1,471</b>	<b>99,012</b>	<b>5,876</b>	<b>109,016</b>
<b>2014/15 Comparative Movements</b>					
2014/15 Comparative Movements	Buildings	Civic Silver	Museum Exhibits	Statues & Monuments	Total Assets
<b>Cost or Valuation</b>					
At 1st April 2014	2,657	1,471	70,802	5,876	80,806
Additions	-	-	472	-	472
Disposals	-	-	-	-	-
Revaluations	-	-	117	-	117
<b>As at 31st March 2015</b>	<b>2,657</b>	<b>1,471</b>	<b>71,391</b>	<b>5,876</b>	<b>81,395</b>

#### *Heritage Buildings*

A number of Buildings previously included as Community Assets were reclassified as Heritage Assets as part of the 2011/12 Statement Of Accounts; the land and buildings relating to these assets are included as part of the 5 year revaluation cycle employed by the Council, however, none of these assets are charged depreciation as per our stated accounting policy on Heritage Assets (included in Section 6). As at 31<sup>st</sup> March 2016 these buildings had a net book value of £2.657m as agreed by the Council's valuer.

#### *Civic Silver*

The civic silver and other mayoral regalia was previously classified as a Community Asset. It was re-valued during 2012/13 and as at the 31<sup>st</sup> March 2016 had a net book value of £1.471m.

#### *Museum Exhibits*

Leicester City Council manages a family of five complimentary museums in the City. Museum exhibits are included in the Balance Sheet at insurance value which is tendered for insurance purposes every 3 years. In July 2014 the new King Richard III visitor centre opened. It includes exhibits that belong to the City Council's museum exhibits collection, and these form part of the overall valuation included in the Balance Sheet.

Museums exhibits were wholly re-valued during 2012/13 and, together with more recent acquisitions (valued at historic cost) and specific revaluations of the most valuable exhibits undertaken since 2012/13, are included in the Balance Sheet as at 31<sup>st</sup> March 2016 at £99m.

Whilst insurance value provides the best estimate as to the fair value of museum exhibits it does have its limitations as not all of the Council's Heritage Assets may be disclosed. There are (circa) two million heritage assets which are managed in accordance with the policies and procedures that are approved by the Council in line with nationally and internationally agreed standards. A specialist database, Mimsy XG, is used to document the collections, recording each object, what they are, their provenance, their condition and location as well as exhibitions and loans into and out of the museums. The Council are still in the process of populating the database although all materially significant assets have been added. It is likely that this may result in further revaluation gains for Heritage Assets in future financial years.

The museum sites are Accredited Museums, meaning they meet standards approved by the Arts Council on behalf of DCMS/the government for collections care, visitor experience and organisational health.

The Council accepts on loan items from collections of other museums, institutions and individuals and touring exhibitions which although not included in the Balance Sheet are covered by the Council for insurance purposes. It also occasionally makes available for loan items from its collections to other museums; these remain on the Council's Balance Sheet as it is viewed that the significant risk and rewards of the asset remain with the Council.

There is a small annual budget for collections management costs. This is used to ensure that the collections are stored, displayed, handled, recorded and maintained carefully in order to preserve them for future generations. These costs are charged to the Comprehensive Income and Expenditure Statement.

The Council's latest Collections Development Policy covers the period 2014-16. It presents an overview of the collections held and sets out priorities for future collecting as well explaining the policy for rationalising and disposing of any items or collections where this is appropriate. Leicester Museums have a dedicated charity, the Friends of the Museum Fund for the City of Leicester, referred to as the City of Leicester Trust, which oversees money collected through museum donation boxes and other sources and uses it to present exhibits and items for the collections.

Information is provided on the Council's web site [www.leicester.gov.uk/museums](http://www.leicester.gov.uk/museums)

### ***Statues and Monuments***

The Council has responsibility for a number of statues and monuments with information on some of these provided on the Council's web site.

[www.leicester.gov.uk/your-council-services/lc/growth-and-history/statuesandsculpture/](http://www.leicester.gov.uk/your-council-services/lc/growth-and-history/statuesandsculpture/)

A large number of these assets were not previously included on the Council's Balance Sheet but have now all been accounted for. A number were valued during 2012/13 and are included at their insurance value. The rest are included at a nominal value as per our stated accounting policy on Heritage Assets (included in Section 6). As a result a total value of £5.876m is held on the Balance Sheet at 31<sup>st</sup> March 2016.

### **37. Assets Held for Sale**

	2014/15 £000	2015/16 £000
Balance at 1st April	19,359	17,985
Property, Plant and Equipment newly classified as held for sale	6,548	163
Property, Plant and Equipment declassified as held for sale	(2,428)	(1,004)
Assets Sold	(4,113)	(6,985)
Other Movements	(1,381)	(86)
<b>Balance at 31st March</b>	<b>17,985</b>	<b>10,073</b>

As at the 31<sup>st</sup> March 2016 the Council had a total of £10.1m assets defined as held for sale. These are shown separately on the Balance Sheet and the assets meet the four main criteria of the code, namely;

- a) They are available for immediate sale in their existing condition.
- b) They are highly likely to be sold and action is planned to this effect.
- c) They are actively being marketed at a price that is reasonable.
- d) Sale should be expected within one year of the Balance Sheet date.

### **38. Impairment Losses**

There were no material impairments of assets during the year.

### **39. Construction Contracts**

At 31<sup>st</sup> March 2016 the City Council had no significant construction contracts (contracts being managed on behalf of other parties) in progress.

### **40. Leases**

#### ***Council as Lessee***

##### *Finance Leases*

The Council has acquired a number of assets under finance leases, including various buildings and IT equipment. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31st March 2015 £000	31st March 2016 £000
Other Land and Buildings	1,548	7,206
Vehicles, Plant and Equipment	418	319
<b>Total</b>	<b>1,966</b>	<b>7,525</b>

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council, and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31st March 2015 £000	31st March 2016 £000
Finance lease liabilities	812	6,646
Finance costs payable in future years	436	15,621
<b>Total minimum lease payments</b>	<b>1,248</b>	<b>22,267</b>

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31st March 2015 £000	31st March 2016 £000	31st March 2015 £000	31st March 2016 £000
Within one year	238	550	139	129
Within 2 to 5 years	708	2,045	429	372
Later than 5 years	302	19,672	244	6,145
<b>Total</b>	<b>1,248</b>	<b>22,267</b>	<b>812</b>	<b>6,646</b>

### *Operating Leases*

The Council leases a number of buildings for operational use. The future minimum lease payments due under non-cancellable leases in future years are:

	Vehicles £000	Buildings £000	Total £000
Not later than one year		870	870
Later than one year and not later than 5 years		3,131	3,131
Later than 5 years		2,952	2,952
<b>Total</b>	-	<b>6,953</b>	<b>6,953</b>

### **Council as Lessor**

#### *Finance Leases*

The Council has leased out property at 40-50 High Street and land at Barkby Road on finance leases. These leases are on peppercorn annual payments and so no income has been included in the accounts. There are no contingent rents in these

leases. The Council has also leased out four other properties on a finance lease where a rental is payable.

Finance Lease Debtor	31st March 2016 £000
Current	13
Non-current	521
Unearned finance income	520
<b>Gross Investment in the lease</b>	<b>1,054</b>

The gross investment in the lease and the minimum lease payments will be received over the following periods:

Minimum Lease Payments	31st March 2016 £000
Within one year	32
Within 2 to 5 years	133
Later than 5 years	889
	<b>1,054</b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

#### *Operating Leases*

The Council leases out a number of buildings for economic support purposes. The future minimum lease payments due under non-cancellable leases in future years are:

	31st March 2015 £000	31st March 2016 £000
Not later than one year	3,712	3,988
Later than one year and not later than 5 years	10,478	11,201
Later than 5 years	68,978	73,623
<b>Total</b>	<b>83,168</b>	<b>88,812</b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

#### **41. Private Finance Initiatives and Service Concession Arrangements**

##### ***Integrated Waste Management Service***

In 2003, the Council entered into a 25 year contract valued in excess of £300m with Biffa (Leicester) Ltd under the PFI scheme. The arrangement, which became operational in 2004, covers the collection, treatment and disposal of City residents' waste. The contractor took on the obligation to provide assets required to deliver these services, including a recycling facility, purpose-built anaerobic digester for

organic waste, and vehicles used in the waste collection and recycling services. At the end of the contract, the assets will be transferred to the Council for nil consideration.

2015/16 was the thirteenth year of the operation of the contract, costing £13.55m (£13.48m in 2014/15).

#### *Property Plant and Equipment*

The assets used to provide the waste management service are provided by the operator, but under recognised on the Council's Balance Sheet.

	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Total £000
Balance at 1st April 2015	12,015	3,710	15,725
Revaluation	4,112	-	4,112
Depreciation	(709)	(1,100)	(1,809)
<b>Balance at 31st March 2016</b>	<b>15,418</b>	<b>2,610</b>	<b>18,028</b>

#### *Payments*

The Council makes an agreed payment each year which is increased by inflation (based on the RPI-X measure) and can be reduced if the contractor fails to meet performance standards. Payments remaining to be made under the PFI contract at 31<sup>st</sup> March 2016 (excluding future inflation) are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Within 1 year	6,519	1,941	1,037	9,497
Within 2 to 5 years	26,175	7,952	2,820	36,947
Within 6 to 10 years	33,344	10,065	2,943	46,352
Within 11 to 15 years	14,114	4,063	446	18,623
<b>Total</b>	<b>80,152</b>	<b>24,021</b>	<b>7,246</b>	<b>111,419</b>

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed.

The liability outstanding to the contractor for capital expenditure incurred is as follows:

	2014/15 £000	2015/16 £000
Balance outstanding at 1st April	12,781	10,993
Payments during the year	(1,949)	(2,048)
Additions	161	-
<b>Balance at 31st March</b>	<b>10,993</b>	<b>8,945</b>



***Building Schools for the Future – Phase 1 - Rebuild of Judgemeadow and Soar Valley Community Colleges***

In December 2007, the Council entered into a 25-year contract with Leicester Miller Education Company Limited under a PFI scheme. The contractor was to design, build, finance and operate, on the existing sites, replacement buildings for two community colleges – Judgemeadow and Soar Valley – valued at £34.9m (on completion of the rebuild in 2009). The Council own 10% of the shares in the company with the remaining 90% in private hands. At the end of the contract, all assets will revert to Council control. The rebuild was completed in 2009, and 2015/16 was therefore the seventh year of the operation of the contract costing £6.47m.

*Property Plant and Equipment*

The assets used to provide the service are recognised on the Council's Balance Sheet. The value of fixed assets included within the contract, and an analysis of the movement in those values, are shown below:

	Vehicles, Plant & Equipment £000
Balance at 1st April 2015	30,193
Revaluations	6,833
Depreciation	(755)
<b>Balance at 31st March 2016</b>	<b>36,271</b>

*Payments*

The Council makes an agreed payment each year which is increased by inflation (based on the RPI-X measure) and can be reduced if the contractor fails to meet performance standards. Payments remaining to be made under the PFI contract at 31<sup>st</sup> March 2016 are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Within 1 year	1,584	1,142	2,739	5,465
Within 2 to 5 years	6,397	3,031	10,158	19,586
Within 6 to 10 years	7,921	6,727	10,717	25,365
Within 11 to 15 years	7,951	9,320	7,232	24,503
Within 16 to 20 years	5,017	10,290	1,978	17,285
<b>Total</b>	<b>28,870</b>	<b>30,510</b>	<b>32,824</b>	<b>92,204</b>

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to the contractor for capital expenditure incurred is as follows:

	2014/15 £000	2015/16 £000
Balance outstanding at 1st April	32,702	31,681
Payments during the year	(1,021)	(1,171)
<b>Balance at 31st March</b>	<b>31,681</b>	<b>30,510</b>

***Building Schools for the Future – Phase 2 - Rebuild of Crown Hills and City Of Leicester Community Colleges***

On 31<sup>st</sup> March 2012 the City Council committed to a new joint PFI project scheme for the re-building of Crown Hills and City of Leicester Community Colleges. This is a design, build, finance and operate on existing sites contract with Leicester Miller Education Company Limited for 25 years. The new schools became operational at the end of October 2013 with construction costs of £44.6m. At the end of the contract, as things stand, all assets will revert to City Council control. 2015/16 was the third year of the operation of the contract costing £6.54m.

*Property Plant and Equipment*

The assets used to provide the service are recognised on the Council's Balance Sheet. The value of fixed assets is shown below:

	Other Land & Buildings £000
Balance at 1st April 2015	32,942
Revaluations/(Impairment)	10,817
Depreciation	(748)
<b>Balance at 31 March 2016</b>	<b>43,011</b>

*Payments*

The Council makes an agreed payment each year which is increased by inflation (based on the RPI-X measure) and can be reduced if the contractor fails to meet performance standards. Payments remaining to be made under the PFI contract at 31<sup>st</sup> March 2016 are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Lifecycle Capital Replacement Costs £000	Total £000
Within 1 year	1,969	1,275	2,870	113	6,227
Within 2 to 5 years	7,876	5,334	10,592	1,105	24,907
Within 6 to 10 years	9,844	6,167	11,163	3,960	31,134
Within 11 to 15 years	9,844	9,124	8,779	3,389	31,136
Within 16 to 20 years	9,844	11,870	5,297	4,124	31,135
Within 21 to 25 years	5,088	8,024	939	2,042	16,093
<b>Total</b>	<b>44,465</b>	<b>41,794</b>	<b>39,640</b>	<b>14,733</b>	<b>140,632</b>

The liability outstanding to the contractor for capital expenditure incurred is as follows:

	2015/16 £000
Commencing values	42,992
Payments during the year	(1,198)
<b>Balance at 31st March</b>	<b>41,794</b>

### ***District Energy Heating & Combined Heat Power Scheme***

On 14<sup>th</sup> January 2011 the Council signed an agreement with Leicester District Energy Company Ltd (LDEC Ltd) for the implementation and provision of a district heating and combined heat and power scheme in Leicester.

The scheme involves the replacement of existing heating boilers, the use of existing heating networks and the construction of additional heating networks in the City Centre and some outer Council estates. Leicester University are part of the scheme and their heating and electricity networks are linked into the overall network scheme. The scheme came on stream during 2012/13 although one phase (Aikman Avenue) has yet to be completed.

The Council is paying charges to LDEC Ltd based on three elements:

- a. Fixed Charges for Heat and Electricity – these include the capital costs of the scheme,
- b. Unit Charges for Heat and Electricity – these are based on actual consumption of heat and energy and the current purchase price of fuel, and
- c. Performance Charges for Heat and Electricity – these are based on performance targets and will be reduced where these are not met.

The initial capital investment made by LDEC Ltd for the whole scheme was £13.7m, of which £935k was funded by a CESP (Community Energy Saving Programme) Grant from LDEC Ltd.'s parent company, GDF Suez, who are an energy provider.

### ***Property Plant and Equipment***

The assets used to provide the service and directly attributable to the City Council are recognised on the Council's Balance Sheet. The value of fixed assets attributable to the Council and operational as at 31<sup>st</sup> March 2016, are shown below:

	Vehicles, Plant & Equipment £000
Balance at 1st April 2015	9,348
Depreciation	(408)
<b>Balance at 31st March 2016</b>	<b>8,940</b>

### ***Payments***

The Council will make payments each year which will be increased by inflation (based on a number of inflation measures) and can be reduced if the contractor fails to meet performance standards. Payments (substantially based on assumed levels of energy consumption) scheduled to be made under the contract at 31<sup>st</sup> March 2016

(excluding future inflation increases but including the final phase due to become operational during 2016/17) are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Lifecycle Capital Replacement Costs £000	Total £000
Within 1 year	1,705	184	859	215	2,963
Within 2 to 5 years	7,172	731	3,481	860	12,244
Within 6 to 10 years	8,965	1,382	3,882	1,076	15,305
Within 11 to 15 years	8,965	2,184	3,080	1,076	15,305
Within 16 to 20 years	8,965	3,448	1,815	1,076	15,304
Within 21 to 25 years	3,360	1,594	255	323	5,532
Within 26 - 30 years	95	2	-	-	97
<b>Total</b>	<b>39,227</b>	<b>9,525</b>	<b>13,372</b>	<b>4,626</b>	<b>66,750</b>

### *Liability*

The liability outstanding to the contractor for capital expenditure incurred up to 31<sup>st</sup> March 2016 is as per the following table:

	2015/16 £000
Liability for capital expenditure incurred for operational phases	9,243
Payments during the year	(268)
<b>Balance at 31st March</b>	<b>8,975</b>

Under the terms of the agreement, at the end of the scheme, or, if earlier, upon termination of the agreement, LDEC Ltd will sell the boiler plant and heating network (such parts that are required to heat all of the City Council's buildings) to the City Council or to a new service provider. The term is designed to ensure that the City Council has a working district heating system at the end of the contract period. At the end of the scheme the expectation is that the sale price would be minimal.

Under the agreement the Council has granted to LDEC Ltd licence to exercise rights to use the heat network to supply heat to any third party consumer. Any such supply agreements will be co-terminus with or less than the scheme term.

## **42. Capitalisation of Borrowing Costs**

The Council has not capitalised any of its borrowing costs during 2015/16.

## Notes Relating to the Council's Working Capital, Financial Assets and Liabilities

The notes in this section provide information on the Council's financial assets and liabilities. These are the result of the Council's day to day operations and represent the cash held by the Council to finance its activities, or liabilities incurred in the course of these.

The notes cover:

- Financial instruments including investments and borrowing incurred in the course of the Council's activities
- An overview of the main risks affecting the Council in relation to financial instruments
- Details of the value of the Council's working capital assets including inventories, debtors and cash or cash equivalents
- Details of financial liabilities, particularly creditors
- Notes supporting the Cash Flow Statement illustrating how the Council's cash position has changed during 2015/16

They will assist readers in gaining greater understanding of the way that Council uses cash and other working capital to facilitate its day to day operations and the risks that the Council considers when managing its financial assets.

### Note 43 – Financial Instruments

#### (a) Financial Instruments - Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

The overall accounting policy for financial instruments, including the application of Fair Value, is detailed in Section 7 – Accounting Policies, but more detailed information is provided within this note.

The use of Fair Value also gives rise to potential estimation uncertainty, detailed further in Note 14.

Not all assets and liabilities held on the balance sheet are counted as financial instruments. The table below indicates which elements of the Balance Sheet are explained within this note.

Category	Amount 31st March 2015 £000s	Amount 31st March 2016 £000s	Comment / Reference
<b>Long Term Investments</b>			
<b>Amount in Balance Sheet</b>	<b>7,785</b>	<b>24,785</b>	
Amounts covered in Note 43:	-	17,000	This note - section B Table 2
Amounts covered in other notes	7,785	7,785	Note 7 - HomeCome
<b>Short Term Investments</b>			
<b>Amount in Balance Sheet</b>	<b>132,297</b>	<b>127,351</b>	
Amounts covered in Note 43:	132,297	127,351	This note - section B Table 2
Amounts covered in other notes	-	-	Not applicable
<b>Short Term Borrowing</b>			
<b>Amount in Balance Sheet</b>	<b>3,505</b>	<b>3,468</b>	
Amounts covered in Note 43:	3,505	3,468	This note - section B Table 1
Amounts covered in other notes	-	-	Not applicable
<b>Other Long Term Liabilities</b>			
<b>Amount in Balance Sheet</b>	<b>884,024</b>	<b>650,053</b>	
Amounts covered in Note 43:	119,120	119,135	This note - section B Table 1
Amounts not covered in Note 43:			
Liability related to defined benefit pension schemes	764,428	530,775	Note 12 - Defined Benefit Pensions
Amounts related to Bonds	476	143	Not separately disclosed
<b>Total</b>	<b>884,024</b>	<b>650,053</b>	

## **Financial Liabilities**

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council. The Council's non-derivative financial liabilities held during the year are measured at amortised cost and comprised:

- long-term loans from the Public Works Loan Board and commercial lenders
- overdraft with Barclays bank £105,000
- finance leases detailed in note 40
- Private Finance Initiative contracts detailed in note 41
- transferred debt liability to Leicestershire County Council as a result of local government reorganisation
- trade payables for goods and services received

## **Financial Assets**

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year are held under the following two-classifications:

- Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:
  - cash in hand

- bank current and deposit accounts with Barclays bank and Co-op bank totalling £524,000
  - fixed term deposits with banks and building societies
  - loans to other local authorities
  - loans to local companies made for service purposes
  - trade receivables for goods and services delivered
- Available for sale financial assets (those that are quoted in an active market) comprising:
    - money market funds managed by Blackrock
    - certificates of deposit and covered bonds issued by banks and building societies
    - treasury bills issued by the UK Government

**(b) Financial Instruments - Balances**

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

Financial Liabilities	Long Term		Short Term	
	31st March 2015 £000s	31st March 2016 £000s	31st March 2015 £000s	31st March 2016 £000s
Loans at amortised cost:				
- Principal sum borrowed	239,321	239,359	10	10
- Accrued interest	-	-	2,249	2,262
- EIR adjustments	3,780	3,737	-	-
<b>Total Borrowing *</b>	<b>243,101</b>	<b>243,096</b>	<b>2,259</b>	<b>2,272</b>
Loans at amortised cost:				
- Bank overdraft	-	-	1,084	106
<b>Total Cash Overdrawn</b>	<b>-</b>	<b>-</b>	<b>1,084</b>	<b>106</b>
Liabilities at amortised cost:				
- Finance leases	673	6,517	139	129
- PFI arrangements	90,379	85,680	4,530	4,543
- Transferred debt liability	27,446	26,344	1,246	1,196
<b>Total Other Long-term Liabilities</b>	<b>118,498</b>	<b>118,541</b>	<b>5,915</b>	<b>5,868</b>
Liabilities at amortised cost:				
- Trade payables	-	-	64,192	70,109
- PFI arrangements	622	594	-	-
<b>Included in Creditors</b>	<b>622</b>	<b>594</b>	<b>64,192</b>	<b>70,109</b>
<b>Total Financial Liabilities</b>	<b>362,221</b>	<b>362,231</b>	<b>73,450</b>	<b>78,355</b>

\* The total short-term borrowing includes £2,262K (2015: £2,249K) representing the short-term portion of long-term borrowing.

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

Financial Assets	Long Term		Short Term	
	31st March 2015 £000s	31st March 2016 £000s	31st March 2015 £000s	31st March 2016 £000s
Loans and receivables:				
- Principal at amortised cost	-	17,000	122,000	103,500
- Accrued interest	-	-	222	387
Available-for-sale investments:				
- Principal at amortised cost	-	-	10,000	23,385
- Accrued interest	-	-	75	79
<b>Total Investments *</b>	-	<b>17,000</b>	<b>132,297</b>	<b>127,351</b>
Loans and receivables:				
- Cash (including bank accounts)	-	-	1,207	581
- Cash equivalents at amortised cost	-	-	25,334	-
Available-for-sale investments:				
- Cash equivalents at fair value	-	-	7,698	6,000
<b>Total Cash and Cash Equivalents</b>	-	-	<b>34,239</b>	<b>6,581</b>
Loans and receivables:				
- Trade receivables	-	-	33,627	38,801
- Loans made for service purposes	-	1,800	-	6,444
<b>Included in Debtors **</b>	-	<b>1,800</b>	<b>33,627</b>	<b>45,245</b>
<b>Total Financial Assets</b>	-	<b>18,800</b>	<b>200,163</b>	<b>179,177</b>

### (c) Financial Instruments - Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

	Financial Liabilities		Financial Assets				2015/16 Total £'000	2014/15 Total £'000
	Amortised Cost	Fair Value thru Profit & Loss	Loans & Receivables	Available-for- Sale Assets	Fair Value thru Profit & Loss	Unquoted equity at cost		
	£'000	£'000	£'000	£'000	£'000	£'000		
Interest expense	21,401	-	-	-	-	-	21,401	21,516
<b>Interest payable and similar charges</b>	<b>21,401</b>	-	-	-	-	-	<b>21,401</b>	<b>21,516</b>
Interest income	-	-	(698)	(268)	-	-	(966)	(1,016)
<b>Interest and investment income</b>	-	-	<b>(698)</b>	<b>(268)</b>	-	-	<b>(966)</b>	<b>(1,016)</b>
<b>Net Gain/(Loss) for the Year</b>	<b>21,401</b>	-	<b>(698)</b>	<b>(268)</b>	-	-	<b>20,435</b>	<b>20,500</b>



#### **(d) Financial Instruments - Fair Values**

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds, the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at 31<sup>st</sup> March 2016, using the following methods:

- Certificates of deposit have been discounted at market interest rates for instruments of similar credit quality and remaining term to maturity.

For 2015/16 there was no significant difference between the initial fair value of available for sale assets and the market value at 31<sup>st</sup> March 2016 and the accounts records the initial fair value.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31<sup>st</sup> March 2016, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of “Lender’s Option Borrower’s Option” (LOBO) loans have been increased by the value of the embedded options. Lenders’ options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrowers’ contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31<sup>st</sup> March 2016.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount and no further disclosure of these is made in this note.

Fair values as at 31<sup>st</sup> March 2016 are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices

- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

2015/16 is the first year for which this analysis is required and hence this analysis is not required for amounts held at 31<sup>st</sup> March 2015. The table below shows the amounts held at 31<sup>st</sup> March 2015 and the fair value reported in the 2015/16 accounts. The underlying methodology is the same or similar in both years except that for lease payables and PFI liabilities the fair value at 31<sup>st</sup> March 2015 was estimated to be the same as the carrying amount.

	Fair Value Level	31st March 2015		31st March 2016	
		Balance Sheet £000s	Fair Value £000s	Balance Sheet £000s	Fair Value £000s
<i>Financial liabilities held at amortised cost:</i>					
Long-term loans from PWLB	2	135,789	169,428	135,801	173,652
Long-term LOBO loans	2	100,895	145,980	100,888	144,082
Bonds issued	1	8,677	13,798	8,679	10,063
Lease payables and PFI liabilities	2	96,343	96,344	97,463	102,323
Transferred debt liabilities	2	28,691	28,691	27,544	39,054
Guarantees issued	3	-	-	-	-
<b>Total</b>		<b>370,395</b>	<b>454,241</b>	<b>370,375</b>	<b>469,174</b>
Liabilities for which fair value is not disclosed *		65,276		73,682	
<b>Total Financial Liabilities</b>		<b>435,671</b>	<b>454,241</b>	<b>444,057</b>	<b>469,174</b>
<i>Recorded on balance sheet as:</i>					
Short-term creditors		69,945		76,861	
Short-term borrowing		2,260		2,272	
Long-term creditors		28,069		26,893	
Long-term borrowing		243,100		243,096	
Other long-term liabilities		92,297		94,935	
<b>Total Financial Liabilities</b>		<b>435,671</b>		<b>444,057</b>	

\* The fair value of short-term financial liabilities including trade payables is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the Council's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

	Fair Value Level	31st March 2015		31st March 2016	
		Balance Sheet £000s	Fair Value £000s	Balance Sheet £000s	Fair Value £000s
<i>Financial assets held at fair value:</i>					
Money market funds	1	-		6,000	
Corporate, covered and government bonds	2	17,773		13,429	
<i>Financial assets held at amortised cost:</i>					
Long-term loans to local authorities	2	-	-	17,000	17,000
Long-term loans to companies	3	-	-	8,244	8,232
<b>Total</b>		<b>17,773</b>	<b>17,773</b>	<b>44,673</b>	<b>44,661</b>
Assets for which fair value is not disclosed *		182,390		153,304	
<b>Total Financial Assets</b>		<b>200,163</b>		<b>197,977</b>	
<i>Recorded on balance sheet as:</i>					
Long-term debtors		-		1,800	
Long-term investments		-		17,000	
Short-term debtors		33,627		45,245	
Short-term investments		132,297		127,351	
Cash and cash equivalents		34,239		6,581	
<b>Total Financial Assets</b>		<b>200,163</b>		<b>197,977</b>	

\* The fair value of short-term financial assets including trade receivables is assumed to approximate to the carrying amount.

#### **Note 44 – Nature and Extent of Risks arising from Financial Instruments**

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in November 2011).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the DCLG Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The main risks covered are:

- *Credit Risk:* The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the Council.
- *Liquidity Risk:* The possibility that the Council might not have the cash available to make contracted payments on time.

- *Market Risk:* The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

**(a) Credit Risk**

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by leading credit rating agencies. Investments are also made in unrated building societies considered to be of equivalent credit worthiness.

The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria in respect of loans to commercial entities as at the balance sheet date are as detailed below.

Investment Type	Maximum Investment Period	Minimum Credit Rating	Individual Lending Limit	Limit for Investment Type
Deposits – Credit Rated Banks and Building Societies	366 Days	A long term rating of A and a short term rating of F1	£10m.	£80m
	6 months	A long term rating of A- and a short term rating of F2	£10m.	
	100 days or less	A long term rating of BBB+ and a short term rating of F2	£10m Additional £5m overnight limit for Barclays Bank	
Covered Bonds	5 years	A long term rating of AA	£20m	Included in above
REPO Agreements	1 year	To be no less secure than a deposit	£20m	Included in above
Deposits – unrated building societies	6 months	N/A – Advice taken from Treasury Advisors	£1m	£10m

The credit criteria applied to other investments are as detailed below.

Investment Type	Counterparty	Maximum Investment Period	Minimum Credit Rating	Individual Lending Limit	Limit for Investment Type
Deposits	Local authority	2 Years	None required	£20m	£130m
Bonds	Local Government Bonds Agency	Not invested in yet	A long term rating of AA-	£30m	
Bonds, Bills and Deposits	UK Public Sector & Quasi-Public Sector	Not invested in yet	A long term rating of AA-	£30m	£60m
Deposits and Treasury Bills	UK Government / UK Government Guarantee	Unlimited	None required	Unlimited	Unlimited
Money Market Funds, Money Market Plus Funds and Short-Dated Bond Funds	Various Fund Managers	3 months	-	£20m	£60m
		7 days Advice taken from Treasury Advisors	-	£20m	£80m
Bonds	International Development Banks	5 Years	AA plus backing of one or more G7 countries.	£10m	£40m
Local Authorities' Property Fund	CCLA	Not invested in yet	Not Applicable	£10m	£10m

The above criteria are based on credit ratings issued by Fitch Ratings but investments are also permitted on the basis of equivalent ratings issued by Moody's Investors Services or Standard and Poor's.

The main commercial customers are lessees, and the financial standing of potential lessees is checked before leases are granted. There is no uniform practice in respect of other customers, but many of these are receiving a service linked to the social aims and objectives of the Council where it would not be practicable to assess the customer's financial standing as a precondition for the provision of that service.

The Council's maximum exposure to credit risk in relation to its investments in commercial institutions (banks and building societies) of £75m as at 31<sup>st</sup> March 2016 (£60m as at 31<sup>st</sup> March 2015) 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 non-recovery applies to all of the Council's deposits, but there was no evidence at 31<sup>st</sup> March 2016 or subsequently that this was likely to crystallise.

The Council's exposure to credit risk in relation to its investments in other local authorities is £66m (£88m as at 31<sup>st</sup> March 2015), and in relation to investments in

the UK Government £nil (£17m as at 31<sup>st</sup> March 2015). Such investments are assessed to be risk free.

The following analysis summarises the Council's potential maximum exposure to credit risk on receivables classified as financial instruments, based on experience of default and levels of collectability over the last five financial years, adjusted to reflect current market conditions.

The value of receivables classified as financial instruments on the Balance Sheet as at 31<sup>st</sup> March 2016 was £21.4m (£20m as at 31<sup>st</sup> March 2015). The following matrix is used for both 2014/15 and 2015/16 to estimate the non-collectible proportion of these receivables.

Age of Receivable	Estimated Non-Collection Rate
Less than One Month	0%
One Month to Three Months	10%
Three Months to Six Months	25%
Six Months to Nine Months	50%
Nine Months to One Year	75%
One Year to Two Years	80%
Over Two Years	100%

On this basis it is estimated that the uncollectable amount on commercial and personal debts outstanding as at 31<sup>st</sup> March 2016 will be £11.1m (£8.7m as at 31<sup>st</sup> March 2015) and that the impaired value of these debts are £10.3m (£11.2m as at 31<sup>st</sup> March 2015).

The following table shows current receivables analysed by age, and the impaired value after allowing for default and non-collectability. The Council does not write off debt from its Balance Sheet until all options for debt collection have been exhausted, a process that often will take a number of years.

	31 <sup>st</sup> March 2015		31 <sup>st</sup> March 2016	
	Due	Impaired	Due	Impaired
	£000	£000	£000	£000
Less than 3 months	8,972	8,557	7,604	7,380
Three to six months	2,038	1,529	1,512	1,134
Six months to one year	1,556	671	2,710	918
More than one year	7,338	405	9,592	912
<b>Total</b>	<b>19,904</b>	<b>11,162</b>	<b>21,418</b>	<b>10,344</b>

### **(b) Liquidity Risk**

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to

refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans.

The maturity analysis of the principal sums borrowed is as follows:

Time to maturity (years)	31st March 2015 £000s	31st March 2016 £000s
Not over 1	4,275	5,181
Over 1 but not over 2	27,245	27,329
Over 2 but not over 5	22,308	28,228
Over 5 but not over 10	23,919	23,901
Over 10 but not over 20	43,759	33,186
Over 20 but not over 30	244,084	242,767
<b>Total</b>	<b>365,590</b>	<b>360,592</b>

\* The Council has £96m of “Lender’s option, borrower’s option” (LOBO) loans where the lender has the option to propose an increase in the rate payable. The Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely to repay these loans. The maturity date is therefore uncertain.

### **(c) Market Risks**

#### ***Interest Rate Risk***

The Council 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 Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited will rise
- investments at fixed rates – the fair value of the assets will fall.

Investments classed as “loans and receivables” and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as “available for sale” will be reflected in Other Comprehensive Income and Expenditure.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000s
Increase in interest receivable on variable rate investments	(30)
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>(30)</b>
Decrease in fair value of available for sale financial assets	11
<b>Impact on Comprehensive Income and Expenditure</b>	<b>(19)</b>
Decrease in fair value of loans and receivables *	139
Decrease in fair value of fixed rate borrowings/liabilities *	(58,876)

\*No impact on Comprehensive Income and Expenditure.

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

### **Price Risk**

The market prices of the Council's fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

### **Foreign Exchange Risk**

The Council has no significant exposure to foreign exchange risk.

## **45. Inventories**

The value of inventories as at 31<sup>st</sup> March 2016 is shown in the table below:

	Balance at 31st March 2015 £000	Balance at 31st March 2016 £000
Consumable Stores	340	326
Maintenance Materials	2,075	2,032
Work in Progress	501	452
<b>Total</b>	<b>2,916</b>	<b>2,810</b>

## **46. Debtors**

### **Long-Term Debtors**

	Balance at 31st March 2015 £000	Balance at 31st March 2016 £000
Mortgages	36	37
Car Loans to Employees	46	15
PFI (CHP)	2,760	5,821
<b>Total</b>	<b>2,842</b>	<b>5,873</b>



### Short-Term Debtors

	Balance at 31st March 2015 £000	Balance at 31st March 2016 £000
Central Government bodies	9,037	9,758
Other Local Authorities	5,826	5,732
NHS bodies	3,438	3,391
Public Corporations and Trading Funds	12	4
Other Entities and Individuals	27,343	33,571
Payments in Advance	8,190	8,674
Capital Debtors	973	-
<b>Total</b>	<b>54,819</b>	<b>61,130</b>

Each line item is presented net of impairment.

### 47. Creditors

	Balance at 31st March 2015 £000	Balance at 31st March 2016 £000
Central Government bodies	33,542	23,730
Other Local Authorities	11,036	9,584
NHS bodies	1,806	2,496
Public Corporations and Trading Funds	-	399
Other Entities and Individuals	57,778	64,918
Receipts in Advance	26,658	27,922
Capital Creditors	7,194	4,666
<b>Total</b>	<b>138,014</b>	<b>133,715</b>

### 48. Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

	Balance at 31st March 2015 £000	Balance at 31st March 2016 £000
<b><u>Cash and cash equivalents:</u></b>		
Cash held by the Council	57	58
Bank	23,382	35,221
Short-term deposits with local authorities - Investment	33,023	6,000
<b>Total Cash and Cash Equivalents</b>	<b>56,462</b>	<b>41,279</b>
Overdraft	(23,317)	(27,156)
<b>Total Cash and Cash Equivalents</b>	<b>33,145</b>	<b>14,123</b>

The Council manages its cash position closely so as to avoid excessive exposure to any individual financial institution. This can result in some accounts being overdrawn whilst others hold in-hand balances to manage particular spending commitments.

#### 49. Cash Flow Statement – Interest included in Operating Activities

	2014/15 £000	2015/16 £000
Interest received	878	798
Interest paid	(19,341)	(22,505)
<b>Net interest</b>	<b>(18,463)</b>	<b>(21,707)</b>

The surplus on the provision of services has been adjusted for the following non-cash movements:

	2014/15 £000	2015/16 £000
Depreciation	37,914	38,402
Impairment and downward valuations	48,422	53,477
Amortisation	490	590
Increase / (decrease) in creditors	16,671	(1,115)
(Increase) / decrease in debtors	(1,349)	(6,606)
(Increase) / decrease in inventories	37	106
Movement in pension liability	29,773	38,040
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	12,976	60,739
Other non-cash items charged to the net surplus or deficit on the provision of services	(1,803)	(4,445)
	<b>143,131</b>	<b>179,188</b>

The surplus or deficit on the provision of services has been adjusted for the following items that are investing or financing activities:

	2014/15 £000	2015/16 £000
Capital Grants credited to surplus or deficit on the provision of services	(87,014)	(63,196)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(12,981)	(19,741)
	<b>(99,995)</b>	<b>(82,937)</b>

#### 50. Cash Flow Statement – Investing Activities

	2014/15 £000	2015/16 £000
Purchase of property, plant and equipment and intangible assets	(141,719)	(97,489)
Purchase of short-term and long-term investments	(1,751,987)	(1,424,707)
Proceeds from sale of property, plant and equipment and int assets	12,986	19,754
Proceeds from short-term and long-term investments	1,735,986	1,412,821
Other receipts from investing activities	76,046	59,539
<b>Net Cash Flows from Investing Activities</b>	<b>(68,688)</b>	<b>(30,082)</b>

**51. Cash Flow Statement – Financing Activities**

	2014/15 £000	2015/16 £000
Cash receipts of short and long-term borrowing	-	(54)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and PFI contracts	(4,594)	(4,853)
Repayments of short and long-term borrowing	(1,196)	(1,097)
Other payments for financing activities	2,382	837
<b>Net Cash Flows from Financing Activities</b>	<b>(3,408)</b>	<b>(5,167)</b>

## **SECTION 4 – HOUSING REVENUE ACCOUNT (HRA)**

The Housing Revenue Account (HRA) is a ring-fenced account that represents The Council's social housing service. This service is required by law to be ring-fenced in order to ensure that there is a clear link between rents charged to tenants and expenditure on social housing.

### **HRA INCOME AND EXPENDITURE STATEMENT**

<b>2014/2015 £000</b>		<b>Note</b>	<b>2015/16 £000</b>
	<b><u>Income</u></b>		
78,736	Dwelling Rents	5	80,302
1,154	Non-dwelling Rents	6	818
4,735	Service Charges	6	4,719
82	Contributions from General Fund		82
<b>84,707</b>	<b>Total Income</b>		<b>85,921</b>
	<b><u>Expenditure</u></b>		
9,592	General Management		10,442
6,570	Special Management	3	10,081
32,693	Repairs & Maintenance		29,214
547	Rent, Rates, Taxes & Other Charges		749
243	Contribution to Bad Debt Provision	4	260
10,956	Depreciation & Impairment of Fixed Assets	12	(20,557)
60	Debt Management Expenses		60
<b>60,661</b>	<b>Total Expenditure</b>		<b>30,249</b>
<b>(24,046)</b>	<b>"Net Cost of HRA Services" as included in the whole authority Comprehensive Income &amp; Expenditure Statement</b>		<b>(55,672)</b>
566	HRA share of Corporate & Democratic Core	15	566
-	HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services	15	-
<b>(23,480)</b>	<b>"Net Cost of HRA Services"</b>		<b>(55,106)</b>
(1,270)	(Gain) or Loss on Sale of HRA Assets		(785)
9,714	Loan Charges - Interest		9,565
(75)	Investment Interest		-
5,807	Pensions - Interest on Liabilities	14	5,276
(3,376)	Pensions - Expected Return on Assets	14	(2,947)
<b>(12,680)</b>	<b>(Surplus) / Deficit for the Year</b>		<b>(43,997)</b>

## MOVEMENT IN HRA RESERVE STATEMENT

2014/15 £000		Note	2015/16 £000
(12,679)	(Surplus) / Deficit for the Year (from above)		(43,997)
	<b><u>Additional items required by Statute and non-statutory proper practices to be taken into account in determining the movement on the Housing Revenue Account Balance</u></b>		
45	Amounts charged to the HRA for amortisation of Premia and Discounts for the year determined in accordance with statute		(138)
(3,130)	HRA share of contributions to/(from) the Pension Reserve	14	(3,875)
1,270	Gain or (Loss) on Sale of HRA Fixed Assets		785
(10,956)	Impairment of Fixed Assets	12	20,557
16,264	Capital Expenditure Financed from Revenue Account	10	17,363
151	HRA Set-Aside (MRP)		234
7,513	Transfers to/(from) the Major Repairs Reserve	13	7,568
(117)	Transfers to/(from) the Employee Benefits Reserve		60
<b>11,040</b>	<b>Total value of items reversed as part of determining the statutory movement on the Housing Revenue Account Balance</b>		<b>42,554</b>
<b>(1,639)</b>	<b>Net (surplus)/deficit on the Housing Revenue Account in the year</b>		<b>(1,443)</b>
(14,469)	Balance Brought Forward		(16,108)
<b>(16,108)</b>	<b>Balance Carried Forward - 31st March</b>		<b>(17,551)</b>

## NOTES TO THE HRA FINANCIAL STATEMENTS

### 1. Housing Revenue Account

The Council is required by the provisions of the Local Government and Housing Act 1989 to maintain a separate Housing Revenue Account (HRA). The purpose of this account is to record transactions relating to dwellings available to provide accommodation and other properties ancillary to the housing function.

The Act specifies the debits and credits to be made to the HRA. These have been supplemented by a suite of self-financing determinations issued by the Department for Communities and Local Government in 2012 and these include what are known as Item 8 Credit and Item 8 Debit determinations. These determinations have been made by the Council and the appropriate entries have been made in respect of capital accounting and financing transactions.

### 2. Changes to Accounting Practice (and 2014/15 comparative figures)

There has been no change in accounting practice.

### 3. Special Management

These include group central heating and hot water schemes, caretaking services, security services to high rise flats, maintenance of shrubberies and grassed areas, communal services, tenancy sustainment for tenants and support for hostel residents.

### 4. Rent Arrears and Provision for Bad Debts

#### *Rents and Service Charges*

The bad debt provision for rents and service charges at 31<sup>st</sup> March 2016 was £1.718m (£1.322m in 2014/15). This is calculated on a rent and service charge arrears balance of £2.112m (£2.106m in 2014/15).

### 5. Net Rent Income from Dwellings

	2014/15 £000	2015/16 £000
Total Rent income from Dwellings	78,736	80,302
Less Housing Benefit	(48,840)	(49,221)
<b>Total</b>	<b>29,896</b>	<b>31,081</b>

### 6. Non-dwelling Rents and Service Charges

These include the charges made to tenants for central heating and garages, rents from shops, and security and cleaning services to flats.

## 7. Housing Stock

The Council was responsible for managing a stock of 21,603 dwellings at 31<sup>st</sup> March 2016, of which 13,404 were houses or bungalows and 8,199 were flats. During the year the following movements took place:

	2014/15	2015/16
Construction of new dwellings	96	-
Acquisitions	-	1
Right to Buy sales	(206)	(244)
<b>Net Increase/(Decrease)</b>	<b>(110)</b>	<b>(243)</b>

## 8. Value of HRA Assets

	31st March 2015 £000	31st March 2016 £000
Dwellings	623,835	661,328
Other Land and Buildings	14,137	13,877
Vehicles, Plant, Furniture & Equipment	-	-
Surplus Assets	88	306
Intangible Assets	553	429
<b>Total</b>	<b>638,613</b>	<b>675,940</b>

## 9. Vacant Possession Value of Council Dwellings

The vacant possession value of council dwellings at 31<sup>st</sup> March 2016 was £1,945.1m. At the same date the balance sheet value of council dwellings was £661.3m. The difference of £1,283.8m reflects the fact that social housing rents generate a lower income stream than could be obtained in the open market. The value placed on operational assets in a commercial environment will reflect the required economic rate of return in relation to the income streams that the assets might be expected to generate throughout their economic life. To the extent that income streams are constrained to serve a wider social purpose, the value of capital assets employed for council housing will be reduced.

	31st March 2015 £000	31st March 2016 £000
Vacant possession values	1,834,810	1,945,083

## 10. Capital Expenditure

HRA capital expenditure on land, houses and other property in 2015/16 totalled £25.042m, financed as follows:

	2014/15 £000	2015/16 £000
Major Repairs Reserve	7,513	7,569
Use of borrowing	4,771	-
Usable capital receipts	2,361	135
Financing from revenue account	16,264	17,363
<b>Total</b>	<b>30,909</b>	<b>25,067</b>

Under the HRA Subsidy system, which ended in 2011/12, a very large part of the HRA's capital financing was from the Major Repairs Reserve (MRR) since this was initially credited with the Major Repairs Allowance (MRA) element of subsidy, which formed the main constituent of the HRA's capital financing resources. Under the 'self-financing' system, the majority of financing is provided directly from the revenue account with further financing coming from the MRR which is funded by depreciation charges to the HRA revenue account.

### 11. Capital Disposals

HRA capital disposals in 2015/16 were as follows:

	2014/15	2015/16		
	Total Receipt £000	Usable/ Retained £000	Pooled/ Set aside £000	Total Receipt £000
Right to Buy (RTB) sales	8,281	4,300	5,032	9,332
Non-RTB sales	35	18	-	18
Mortgages	-	-	-	-
<b>Total</b>	<b>8,316</b>	<b>4,318</b>	<b>5,032</b>	<b>9,350</b>

### 12. Depreciation & Impairment of Fixed Assets

A breakdown of the depreciation and impairment charges are provided in the table below:

	2014/15			2015/16		
	Depreciation 2014/15	Impairment 2014/15	Total 2014/15	Depreciation 2015/16	Impairment 2015/16	Total 2015/16
Dwellings	6,796	208	7,004	6,796	(28,799)	(22,003)
Other Land and Buildings	177	1,695	1,872	485	11	496
Vehicles, Plant, Furniture & Equipment	474	-	474	163	663	826
Surplus Assets	-	1,540	1,540	-	-	-
Intangible Assets	66	-	66	124	-	124
<b>Total</b>	<b>7,513</b>	<b>3,443</b>	<b>10,956</b>	<b>7,568</b>	<b>(28,125)</b>	<b>(20,557)</b>

To be consistent with the format of the dwellings valuation supplied by the authority's external valuers, the dwellings depreciation charge has been calculated by dividing



the buildings element of the valuation (on an 'Existing Use Value – Social Housing' basis) by the residual life of the properties.

### **13. Use of the Major Repairs Reserve**

	2014/15 £000	2015/16 £000
Balance at 1st April	(1,200)	(1,200)
Depreciation credited	(7,513)	(7,568)
Capital expenditure on land, houses and other property	7,513	7,568
<b>Balance at 31st March</b>	<b>(1,200)</b>	<b>(1,200)</b>

Under the HRA Subsidy system, a transfer was made to or from the HRA revenue account so that the MRA element of subsidy would be available in the MRR for capital financing. This adjustment is not required under the 'self-financing' system applying from 2012/13.

### **14. HRA Contributions to the Pensions Reserve**

This table identifies the total HRA share of contributions to and (from) the pensions reserve and breaks the figure down to show the type of contribution to or (from) the reserve. More detailed information on pensions is provided in note 12 to the core financial statements.

	2014/15 £000	2015/16 £000
Pension costs incurred in Net Cost of Services		
Current service cost	(699)	(1,546)
Past service cost	-	-
	(699)	(1,546)
Pension interest cost and expected return on assets		
Interest on liabilities	(5,807)	(5,276)
Expected return on assets	3,376	2,947
	(2,431)	(2,329)
<b>Total Transfer to Pension Reserve</b>	<b>(3,130)</b>	<b>(3,875)</b>

### **15. Corporate and Democratic Core Costs**

A charge of £566k was made to the Housing Revenue Account for Corporate & Democratic Core costs in 2015/16.

## SECTION 5 – COLLECTION FUND

The Collection Fund is a ring-fenced account that represents the Council's role in collecting Council Tax and Non-Domestic Rates for the City of Leicester. The Council collects taxation income in the Collection Fund and then makes distributions to precepting authorities including the Leicestershire Fire and Police authorities as well as to the Council's own General Fund.

### Collection Fund Income & Expenditure Account

2014/15				Note	2015/16		
Council Tax	Business Rates	Total			Council Tax	Business Rates	Total
£000	£000	£000			£000	£000	£000
			<b>Income</b>				
102,951		102,951	Council Tax Collectable	2	107,220		107,220
	98,648	98,648	Income from Business Ratepayers			101,533	101,533
		<b>201,599</b>	<b>Total Income</b>				<b>208,753</b>
			<b>Expenditure</b>				
			Precepts and Demands:	3			
82,178		82,178	Leicester City Council		85,802		85,802
11,361		11,361	Leicester Police Authority		11,862		11,862
3,814		3,814	Leicester Fire Authority		3,983		3,983
		97,353					101,647
			Business Rates:	4			
	50,618	50,618	Payments to Government			51,521	51,521
	1,012	1,012	Payments to Fire			1,030	1,030
	49,606	49,606	Payments to Leicester City Council			50,490	50,490
	490	490	Costs of Collection			492	492
		101,726					103,533
2,765	(1,960)	805	Contributions in respect of previous year's surplus / (deficit)	6	3,631	2,681	6,312
			Bad and Doubtful Debts:	7			
1,126	1,469	2,595	Write-offs		1,309	1,316	2,625
500	(6)	494	Increase / (Reduction) to provision		49	165	214
	2,377	2,377	Increase / (Reduction) to Provision for appeals			(1,606)	(1,606)
		5,466					1,233
		<b>205,350</b>	<b>Total Expenditure</b>				<b>212,725</b>
(1,207)	4,958	3,751	Fund (Surplus) / Deficit for the Year		(584)	4,556	3,972
(3,482)	2,962	(520)	Fund (Surplus) / Deficit brought forward	5	(4,689)	7,920	3,231
<b>(4,689)</b>	<b>7,920</b>	<b>3,231</b>	<b>FUND BALANCE AS AT 31st MARCH</b>	<b>1</b>	<b>(5,273)</b>	<b>12,476</b>	<b>7,203</b>

## Notes to the Collection Fund Income & Expenditure Statement

### 1. Statutory Requirements & Allocation of Balances

This statement fulfils the statutory requirement for the Council to maintain a separate Collection Fund.

The balance on the collection fund is split between the relevant bodies as shown in the table below:

	2015/16		
	Council Tax	Business Rates	Total
	£000	£000	£000
Leicester City Council	(4,452)	6,113	1,661
Government	-	6,237	6,237
Leicestershire & Rutland Combined Fire Authority	(207)	126	(81)
Police & Crime Commissioner for Leicestershire	(614)	-	(614)
<b>Fund Balance Allocations as at 31st March</b>	<b>(5,273)</b>	<b>12,476</b>	<b>7,203</b>

### 2. Income from Council Tax

The Council's Tax Base i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of Band D dwellings, was calculated as follows:

Band	Estimated No. of Taxable Properties After Effect of Discount	Ratio	Band D Equivalent Dwellings	Less Band D Equivalent - LCTR Scheme Dwellings	Net Band D Equivalent Dwellings
A-	195	5/9	108	39	69
A	65,843	6/9	43,896	12,369	31,527
B	22,134	7/9	17,215	2,384	14,831
C	13,146	8/9	11,685	1,206	10,479
D	5,581	1	5,581	357	5,224
E	2,823	11/9	3,450	127	3,323
F	1,369	13/9	1,977	46	1,931
G	558	15/9	929	9	920
H	30	18/9	60	0	60
	<b>111,679</b>		<b>84,901</b>	<b>16,537</b>	<b>68,364</b>
Less adjustments for collection rates and anticipated changes to liability to pay the tax under the Local Council Tax Reduction Scheme (LCTRS)					(2,461)
<b>Council Tax Base</b>					<b>65,903</b>

The total collectable Council Tax during 2015/16 was £107.220m including arrears from prior years.

The collectable Council Tax specifically for 2015/16 was £132.146m (including sums paid under the Local Council Tax Reduction Scheme). After taking into account the total amount of this reduction (£24.641m), the average number of Band D dwellings equates to 69,701. This is an increase from the 65,903 dwellings existing when the 2015/16 budget was prepared due to the net effect of the following:

- 1) Changes in discounts and exemptions allowed;
- 2) New properties;
- 3) Lower total amounts of local council tax reduction granted than expected.

### **3. Precepts and Demands**

The following sums were paid from the collection fund.

	2015/16		
	Council Tax	Business Rates	Total
	£000	£000	£000
Leicester City Council	(4,452)	6,113	1,661
Government	-	6,237	6,237
Leicestershire & Rutland Combined Fire Authority	(207)	126	(81)
Police & Crime Commissioner for Leicestershire	(614)	-	(614)
<b>Fund Balance Allocations as at 31st March</b>	<b>(5,273)</b>	<b>12,476</b>	<b>7,203</b>

### **4. Income from Business Rates**

Under the arrangements for business rates, the Council collects rates payable in the City, which are based on the rateable values multiplied by a uniform rate. With the current rates retention scheme, the total amount less certain reliefs and other deductions is shared between Central Government (50%), Leicestershire Fire Authority (1%) and the Council (49%).

The total non-domestic rateable value at 31<sup>st</sup> March 2016 was £265,399,359 (£263,093,840 at 31<sup>st</sup> March 2015). The national non-domestic rating multiplier for the year was 49.3p (48.0p), (48.2p (47.1p) in 2014/15), with the small business non-domestic rating multiplier for the respective years shown in brackets.

### **5. Collection Fund Surpluses & Deficits**

The Collection Fund account shows a cumulative deficit of £7,203,273 at 31<sup>st</sup> March 2016 (£3,231,215 deficit at 31<sup>st</sup> March 2015).

The surplus arising on the Council Tax during the financial year 2015/16 will be distributed between Leicester City Council, the Police & Crime Commissioner for Leicestershire and the Leicester, Leicestershire & Rutland Combined Fire Authority in proportion to the respective precepts and demands.

The deficit arising on the Business Rates during the financial year 2015/16 will be shared between Leicester City Council (49%), Central Government (50%) and the Leicester, Leicestershire & Rutland Combined Fire Authority (1%).

## 6. Contributions to Collection Fund Surpluses & Deficits

### *Share of Surpluses/Deficits*

#### *Council Tax*

Every January, the Authority has to estimate the surplus/deficit for the collection fund at the end of the financial year.

For the Council Tax, this has to be notified to the police and the fire authority, which are entitled to receive a share of any surplus (or contribute a share towards a deficit) made in respect of Council Tax. This is detailed in the table below.

	City £000	Police £000	Fire £000	Total £000
Estimate Jan 2015	3,065	424	142	3,631

#### *Business Rates*

For Business Rates, this is notified to central government and the fire authority, which are entitled to receive a share of any surplus (or contribute a share towards a deficit) made in respect of Business Rates. This is detailed in the table below.

	City £000	Central Government £000	Fire £000	Total £000
Estimate Jan 2015	1,314	1,340	27	2,681

## 7. Bad and Doubtful Debts

The table below provides more detail on the bad debt write-offs and the increase in the provision for bad and doubtful debts.

Provisions	Bad Debt Provision			Bad Debt Write-offs In year £000
	Balance at 1 <sup>st</sup> April 2015 £000	Increase/ (Decrease) £000	Balance at 31 <sup>st</sup> March 2016 £000	
Council Tax	5,973	49	6,022	1,309
NNDR	2,838	165	3,003	1,316
<b>Total</b>	<b>8,811</b>	<b>214</b>	<b>9,025</b>	<b>2,625</b>

## **SECTION 6 – ACCOUNTING POLICIES**

**This section of the Statement of Accounts sets out the accounting policies used by the Council in preparing the Statement of Accounts.**

**The Council's accounting policies are based on the Code of Practice on Local Authority Accounting 2015/16 ("the Code") published by the Chartered Institute of Public Finance & Accountancy (CIPFA). The Code is based on a combination of International Financial Reporting Standards and relevant UK statutes applying to Local Authority accounts.**

**The Council's accounting policies are consistent with the Code but provide greater detail on areas where there is room for discretion or interpretation in the approach that the Council may take.**

**The section details any changes to the accounting policies during 2015/16 and also clarifies where there are accounting standards in issue that have not yet been adopted by the Local Authority sector.**

### **Changes in Accounting Policies**

There have been three significant changes to accounting policies during 2015/16.

#### **Soft loans**

The policy on accounting for soft loans has been clarified but it remains the case that no material soft loans have been made by the Council.

#### **Minimum Revenue Provision**

The Council approved a change to its policy on charging Minimum Revenue Provision to the General Fund at a meeting on 26<sup>th</sup> November 2015. The change applied prospectively and does not affect figures from previous years. More detail is given in the Narrative Statement within this statement of accounts, and in section 6 below.

#### **IFRS 13 Fair Value**

The Code of Practice for 2015/16 incorporated IFRS 13 Fair Value. This standard ensures that assets and liabilities are valued based on the concept of fair value. Fair Value determines that the value of an asset or liability should be based on the price that would be paid for the asset in the open market, or the closest possible approximation of this where an active quoted market does not exist. The Code of Practice allows the Council to value operational assets at 'fair value in use', which takes account of their current purpose and does not require a valuation based on 'highest and best' use.

The implementation of IFRS 13 did not require retrospective restatement.

### **Other amendments**

A small number of other policies have been amended to provide users with greater clarity, but this does not represent any change in the Council's practice.

## **Accounting policies for 2015/16**

### **1. General Principles**

The Statement of Accounts summarises the City Council's transactions for the 2015/16 financial year and its position at the year end of 31 March 2016. The Council is required to prepare an annual statement by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. Those practices comprise the Code of Practice on Local Authority accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16 (SeRCOP), supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### **2. 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:

- Fees, charges and rents due are accounted for as income at the date on which the Council provides the relevant goods or services
- Supplies are recorded as expenditure when they are consumed. Where supplies are held for future use they are shown as inventories on the Balance Sheet
- Expenses in relation to services received (including services provided by employees) are recorded when the services are received rather than when payments are made
- Where income or expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

### **3. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash Equivalents are investments that mature within three months from the date of acquisition and 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 part of the Council's cash management.

### **4. Exceptional Items**

When items of income or expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement (CI&ES) or in the notes to the accounts, depending on their significance in understanding the Council's financial performance.

### **5. Prior Period Adjustments, changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may result from a change in accounting policies or the need to correct material errors. Changes in accounting estimates (i.e. estimation of figures based on assumptions and analysis) are accounted for in the current year, and not in previous years.

Changes in accounting policies result either from alterations to proper accounting practices, or to provide more reliable or relevant information about the effect of transactions on the Council's financial performance.

Where such changes are made, they are applied retrospectively by adjusting opening balances and comparative amounts for previous years, as if the new policy had been applied. This policy is also applied to any material errors that may be identified.

### **6. Charges to Revenue for Non-Current Assets**

Service revenue accounts, support services and trading accounts are charged with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service. Depreciation is calculated on opening Net Book Values
- Impairment losses attributable to the clear consumption of economic benefits on non-current assets used by the service where there are no accumulated gains in the Revaluation Reserve against which they can be written off. Where previous impairments have occurred and subsequent revaluation gains



are made, the gains are first used to credit service revenue accounts, to partially or fully mitigate the impairments.

- Amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, the Council's policy is to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirements. This is known as "Minimum Revenue Provision" (MRP). The Council is also able to make additional voluntary MRP known as "Voluntary Set Aside" (VSA).

Depreciation, impairment losses and amortisations are therefore replaced by MRP and VSA in the Movement in Reserves Statement, by way of an adjusting transaction within the Capital Adjustment Account for the difference between the two.

The Council's full policy on the calculation of Minimum Revenue Provision is set out in the annual budget approved by Council. In November 2015, however, the Council separately approved a change in the MRP policy to bring the full calculation into line with asset lives, as opposed to the previous basis whereby MRP on historic borrowing was calculated at 4% of the principal. More detail is available in the Narrative Statement within this Statement of Accounts, and the full report was presented to Council on 26<sup>th</sup> November 2015.

## **7. Employee Benefits**

### **Benefits Payable during employment**

Short term employee benefits are those due to be settled within 12 months of the year end. They include wages, salaries, paid annual and sick leave, bonuses and other non-monetary benefits (e.g. cars) for current employees and are recognised in the year in which the employee render the service. An accrual is made for cost of holiday entitlement earned by the employee but not taken before the end of the financial year. The accrual is made at the wage and salary rates applicable in the period the employee takes the benefit. This accrual is charged to services and reversed into the period when the entitlement is taken. To avoid an impact on balances this is reversed in the Movement in Reserves Statement.

### **Termination Benefits**

Termination benefits are payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date, or the officer's decision to accept voluntary redundancy. These costs are charged on an accrual basis to the Non Distributed Costs in the CI&ES when the Council is committed to the termination, or make an offer to encourage voluntary redundancy.

When these involve enhancement of pensions the General Fund is required to be charged with the amount payable, however this is adjusted (in line with regulations) in the Movement in Reserves Statement to reflect the cash paid rather than the liability incurred under accounting standards.

## Post-employment Benefits

Employees of the Council may be members of one of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education.
- The Local Government Pension Scheme, administered by the Leicestershire County Council (LGPS)
- The NHS Pension Scheme (in relation to staff transferring from the NHS as part of the adoption of responsibility for public health), administered by the NHS Business Services Authority

All schemes provide defined benefits to members (retirement lump sums and pensions), to which entitlement is earned as employees work for the Council.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for those benefits cannot be identified as specifically accruing to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Children and Education services line in the CI&ES is charged with the employer's contributions payable to teachers' pensions in the year.

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

- The liabilities of the Leicestershire County Council Pension Scheme attributable to Leicester City Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of future earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate calculated by the actuary based on the yield curve of a basket of high-quality corporate bonds with maturity dates and the weighted average duration of the benefit obligation for the Council.
- The assets of the Leicestershire County Council Pension fund attributable to Leicester City Council are included in the Balance Sheet at their 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 between Balance Sheet dates is analysed into six components:
  - Current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the CI&ES to the revenue accounts of services for which the employees worked.
  - Past service costs – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the CI&ES as part of Non-Distributed Costs.
  - Net interest on the defined benefit liability – the net of the expected increase in the present value of liabilities over the year arising from the passage of time and the expected return on scheme assets discounted at the discount rate used for the liabilities. This is part of Financing & Investment Income & Expenditure.
  - Gains/losses on settlements and curtailments – the results of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services as part of Non-Distributed Costs.
  - Re-measurements of the net defined benefit obligation – this is the change in the net pensions liability over the year attributable to changes in demographic and financial assumptions
  - Contributions paid to the Leicestershire County Council Pension Fund – cash paid as employer’s contributions to the pension fund.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension fund in the year. This means that there are appropriations to and from the Pensions Reserve in the Movement in Reserves Statement, to remove the notional debits and credits for retirement benefits and replace them with debits for cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance on the Pension Reserve measures the beneficial impact on the General Fund for accounting on cash basis rather than as the benefits are earned.

### **Discretionary Benefits**

The Council also has limited 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 (including teachers and ex-NHS staff) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## 8. Events after Balance Sheet date

Events after the Balance Sheet date are those events, favourable or adverse, that occur between the end of the reporting period and the date that the Statements are authorised for issue. Two types of events could be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period. The statements are adjusted to reflect this better understanding of the situation at the Balance Sheet date
- Those indicative of conditions that arose after the reporting period, but are relevant to the reader's understanding of the Council's financial position. The Statements are not adjusted, but if the events would have a material effect on the reader's understanding, disclosure is made 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 Statements

## 9. Fair Value

The Code of Practice for 2015/16 incorporated IFRS 13 Fair Value. This standard ensures that assets and liabilities are valued based on the concept of Fair Value.

Fair Value determines that the value of an asset or liability should be based on the price that would be paid for the asset in the open market, or the closest possible approximation of this where an active quoted market does not exist. IFRS 13 provides guidance on the methods for calculating a market value where there is no quoted market.

The Code of Practice allows the Council to value operational assets at 'fair value in use', which takes account of their current purpose and does not require a valuation based on 'highest and best' use.

Non-operational assets and financial instruments are valued at Fair Value based on their highest and best use – i.e. the price that would be paid for them by a knowledgeable market participant acting in their own economic interest.

Fair Value primarily affects fixed assets (property, plant & equipment) and financial assets and liabilities. More information is provided within Notes 33 (PPE) and 43 (Financial Instruments).

## **10. Financial Instruments**

### **Financial Assets**

Financial assets are classified into two types:

Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market

Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

### **Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment line in the CI&ES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CI&ES is the amount receivable for the year in the loan agreement.

### **Soft Loans**

Soft loans are loans made to third parties at less than market rates. These loans are often made for the purposes of supporting voluntary organisations, or for the purposes of economic development. The difference between the market rate and the rate at which the loan is given is adjusted through the Comprehensive Income & Expenditure Statement with the impact of this reversed through the Financial Instrument Adjustment Account.

### **Impairment**

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the CI&ES. Any gains and losses that arise on the de-recognition of the asset are credited/debited to the CI&ES.

### **Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Finance and Investment Income line in the CI&ES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest and interest charged to the CI&ES is the amount payable for the year in the loan agreement. The effective

interest rate is that which exactly discounts estimated future cash payments over the life of the instrument to that at which it was originally recognised.

### **Repurchase of Borrowing**

Gains on the repurchase or early settlement of borrowing are credited to Net Operating Expenditure in the CI&ES in the year of repayment/settlement. Losses on the repurchase or early settlement of borrowing are debited to Net Operating Expenditure, which may be met by capital receipts, reducing the level of unapplied capital receipts carried forward, or from borrowing. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the CI&ES is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the CI&ES, regulations allow the impact on the General Fund balance to be spread over future years. The council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CI&ES to the net charge against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account. (This is further detailed in Note 5).

## **11. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as income at the date that the council satisfies the conditions of the entitlement to the grant/contribution and there is reasonable assurance that the monies will be received.

Conditions are stipulations that specify that future economic benefits or service potentials embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or returned to the payer. Revenue grants are matched in revenue accounts with the service expenditure to which they relate.

Grant towards general expenditure (e.g. Revenue Support Grant, NNDR etc.) is credited to the Taxation and non-specific grant income in the CI&ES.

Grants that relate to capital expenditure are recognised in the year that the conditions of the grant are met, or immediately upon receipt if there are no conditions. These items are credited in the CI&ES under Taxation and Non-specific Grant Income. To avoid impact on the General Fund these items are reversed in the Movement in Reserves Statement and transferred to either the Capital Grants Unapplied Reserve or the Capital Adjustment Account.

Grants and contributions which have been received but for which any conditions have not been satisfied are carried on the Balance Sheet as Receipts in Advance.

## **12. Intangible Assets**

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. The balance, calculated on a historic cost basis, is amortised to the relevant revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

## **13. Interest in Companies and Other Entities**

In previous years, the Council has prepared Group Accounts, incorporating certain other organisations over which the Council has a level of control consistent with the Code's definition of a subsidiary or associate entity.

In 2012-13 the Council reviewed its relationship with these other organisations and has concluded that the preparation of Group Accounts gives no material benefit to users of the Statement of Accounts in terms of their understanding of the Council's financial position. This remains the case in 2014/15.

Any significant interest in companies and other entities are recorded as investments (i.e. cost less any provision for losses) in the single entity accounts

## **14. Inventories**

Inventories (stocks) are included in the Balance Sheet at the lower of cost and net realisable value. Work in progress is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

## **15. Jointly Controlled Operations and Assets**

Jointly controlled operations are activities undertaken by the council in conjunction with other ventures that involve the use of assets and resources of the ventures rather than establishing a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debit and credits the CI&ES with its share of expenditure and income from the activities of the operation.

## **16. Leases**

Leases are classified as either 'finance' or 'operating' leases.

A finance lease is one where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of property, plant or equipment from the lessor to the lessee. In these cases, the lease is accounted for as two parallel but distinct transactions – the acquisition/disposal of an asset and the giving/receipt of a loan to finance it.



All other leases are classified as operating leases – in these cases the annual receipt/payment is simply recognised in the CIES and the future commitments disclosed in the note to the accounts.

Where a lease covers both land and buildings each element is considered separately for classification. Arrangements that do not have the legal status but convey a right to use the asset in return for a consideration are accounted for under this policy.

#### *Council as Lessor*

Where the Council have granted a finance lease over property or equipment, which is considered material, the relevant asset is written out of the Balance Sheet. Rentals under such leases, granted after 1<sup>st</sup> April 2010, are apportioned between:

- Finance income (credited to Finance and Investment income in the CIES).
- Charge for acquisition of the interest in the property (this is treated as a capital receipt and is used to reduce the long term debtor created at the start of the lease).

However the income from earlier leases will continue to be treated as rental income and all credited to the Services in the CIES. This is the same treatment for leases granted that are deemed to be operational leases

The gain credited to the CIES on disposal, is regarded as a capital receipt and reversed out to avoid an impact on the General Fund balances in the Movement in Reserves Statement to either Usable Capital Receipts or Deferred Capital Receipts if payment is due in the future. The written off value is not charged against Council Tax as the cost of fixed assets is fully provided for under the capital financing arrangements. Therefore an adjustment is made to the Capital Adjustment Account in the Movement in Reserves Statement.

#### *Council as Lessee*

Where the Council holds assets under a finance lease the relevant assets are recognised as assets and added to the non-current assets on the Balance Sheet at the fair value measured at the lease inception (or the present value of minimum leases payments, if lower). The assets recognition is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods they are incurred. Payments under such leases are apportioned between:

- Finance Income and charged to the Finance and Investment expenditure in the CIES.
- Charge for acquisition, and debited against the lease liability created when the non-current asset is recognised on the Balance Sheet.

The asset created is valued and depreciated in the same way as other owned assets, the depreciation being charged to the service using the asset. The



depreciation is reversed through the Movement in Reserves Statement and replaced by a prudent annual contribution (MRP) to cover the use of the asset.

Rentals for assets acquired under operational leases are charged on a straight line basis over the life of the lease to the appropriate service in the CIES.

## **17. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the Service Reporting Code of Practice 2014/15 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multi-functional democratic organisation
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early

These two categories are accounted for as separate headings in the CI&ES, as part of the Cost of Services.

## **18. Property Plant and Equipment**

Assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis are classified as Property, Plant and Equipment.

### *Recognition:*

Expenditure on the acquisition, creation or enhancement of tangible non-current assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Recognition is subject to a de minimis limit of £10k so that small items of expenditure do not need to be capitalised but are charged to revenue. Expenditure that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

The cost of assets acquired other than by purchase is deemed to be its fair value.

### *Measurement:*

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. The Council does not capitalise borrowing costs incurred during the construction period. The cost of assets acquired other than by purchase, and donated assets, is deemed to be its fair value. Gains are credited to the Other Comprehensive Income and

Expenditure line of the CIES, and reversed out to the Revaluation Reserve in the Movement in Reserves Statement.

Assets are carried in the Balance Sheet using the following measurement basis:

- Council dwellings – fair value using basis of existing use value for social housing.
- Vehicles, plant and equipment are substantially at historic cost net of depreciation as either there is no intention to sell before the end of their useful life or they are of a specialist nature and therefore have no readily available market value. Some assets are subject to fair value measurement.
- Infrastructure assets, Community assets and Assets under Construction – depreciated historic cost or nominal value in the main. A few are subject to fair value measurement.
- All other assets - fair value, determined as the amount that would be paid for the asset in existing use (or fair value based on market value at highest and best use for surplus assets).

Where there is no market based evidence of fair value because of the specialised nature of the asset, depreciated replacement cost is used as an estimate of fair value.

Assets included in the Balance Sheet at fair value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CIES where they arise from the reversal of an impairment loss previously charged to a service revenue account. Decreases in valuations, when identified, are initially written down against any previous values in the Revaluation Reserve for that asset, and any balance of the reduction is written down to the relevant service line in the CIES. The Revaluation Reserve contains revaluation gains recognised since 1<sup>st</sup> April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

*Impairment:*

The values of each category of asset and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified this is accounted for by:

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account.
- Otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charges to the relevant service revenue account.

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

*Disposals:*

When it becomes probable that the carrying amount of an asset will be recovered from sale rather than through continued use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of that value and fair value less costs to sell. Where there is a subsequent decrease to fair value, the loss is posted to other operating expenditure line in the CIES.

Gains are recognised up to the amount of any previous losses recognised in the surplus or deficit on Provision of Services. Recognition of any revaluation gains that take place over this amount is deferred until they are realised in a sale. Depreciation is not charged on Assets Held for Sale. The probability of sale is measured on the fact that the asset is being actively marketed and there is a likelihood of disposal within twelve months. If assets no longer meet these criteria they are reclassified back to non-current assets and valued back to their carrying value before being reclassified, adjusted for depreciation that would have been incurred.

When an asset is disposed of or de-commissioned, the value of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal.

Receipts from disposals are credited to the CIES as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10k are categorised as capital receipts.

A proportion of receipts relating to Housing Revenue Account (HRA) dwellings sold under the Right To Buy (RTB) rules from 1<sup>st</sup> April 2012 is payable into a government pool, with the balance of the receipts (after a deduction to compensate the HRA for a higher level of sales under the new rules) being available for general capital investment plus a prescribed requirement to provide new affordable housing. 50% of HRA receipts from non-RTB disposals are also required to be paid into the government pool, unless they are reinvested in new affordable housing or regeneration capital schemes, in which case the pooling requirement is waived.

The balance of receipts is required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the reserve from General Fund balances in the Movement in Reserves Statement.

The written-off value of disposals is not charged against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

*Depreciation:*

Depreciation is provided for on all assets with a determinable finite life, by allocating the value of the asset in the Balance Sheet over the periods in which the benefits from their use are expected to arise.

Depreciation is calculated on the following bases:

- Council dwellings – dividing the buildings element of the valuation (i.e. fair value less an adjustment for social housing) by the residual life of the property.
- Other buildings - straight-line allocation over the life of the property as estimated by the valuer.
- Vehicles – on a straight-line basis.
- Plant and Equipment – straight-line over the estimated life of the asset.
- Infrastructure – straight-line allocation over 40 years.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been charged based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Depreciation is calculated on opening net book values and is based on the remaining useful life on the assets.

Schools:

Schools assets are included within the Council's Balance Sheet in line with the criteria for recognition of non-current assets set out in the Code of Practice. Consideration is given to the recognition of the assets on a school-by-school basis but in effect the assets of all schools run under the standard community schools model (including Voluntary Controlled schools) are recognised because the Council is both the legal owner of the assets and also the beneficiary of them in substance. Where the governance of the school differs from the community school model (for example Academies, Voluntary Aided and Foundation Trust schools), the Council considers whether it has effective control of the school's assets in respect of access to future economic benefits or service potential, and also its exposure to the risks of ownership. Where this is not the case, the assets are not recognised on the Council's Balance Sheet.

Where schools become Academies, the Council retains legal title to the assets of the school but transfers the economic benefits and service potential of those assets to the Academy by way of a long lease. The Council therefore derecognises those assets from its Balance Sheet in line with the Code of Practice's provisions on leasing.

## **19. Heritage Assets**

Heritage Assets were accounted for as a separate class of assets for the first time in the 2011/12 financial statements, in accordance with FRS 30 and the Code of Practice. Some of the Heritage assets were previously reported as community assets within property, plant and equipment. These have all been reclassified at their net book value and all have indeterminate useful economic lives and therefore it is not considered appropriate to charge depreciation.

Other Heritage Assets exhibits are held across the City in various locations such as New Walk Museum, the Guildhall and Newarke Houses Museum. These are recognised at insurance value as this is deemed to be the most appropriate, fair and suitable method. They are based on market values and updated every 3 years, or more frequently if there is evidence of material changes in value.

A number of other assets have been included in the Council's asset register as heritage assets. These assets have been included at a nominal fair value due to the improbability that any could be sold.

The carrying amounts in the Balance Sheet of all the assets (i.e. other than museum exhibits and assets held at nominal fair value) are reviewed as part of the on-going 5 year revaluation work undertaken by the Council and where there is evidence of impairment, such as physical deterioration, that impairment will be recognised and measured in accordance with the Council's general policies on impairment; see paragraph 18 – Property, Plant and Equipment on impairment.

Purchases and acquisitions, (for example by donations) are rare but when they do occur purchases will be recognised at cost and acquisitions will be initially recognised at a nominal value until valuations can be ascertained by either the museum's curators with reference to the appropriate commercial markets, or by an external valuer.

The Council will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Any disposal proceeds will be disclosed separately in the notes to the financial statements and will be accounted for in accordance with the statutory requirements relating to capital expenditure and capital receipts; see section 18 – Property, Plant and Equipment.

## 20. Private Finance Initiatives

PFI, and similar contracts, are agreements to receive services which may include the requirement to provide assets by the supplier in the delivery of the service. In line with the requirements of the International Financial Reporting Interpretations Committee (IFRIC), as the Council is deemed to control the service, and ownership of the property will pass to the Council at the end of the contract, with no extra charge, the Council carries the value of the property and equipment used on its Balance Sheet as part of Property, Plant and Equipment.

The initial recognition of the assets, at fair value, is balanced by the recognition of the liability for amounts due to the scheme contractor to pay for the capital investment. The Assets are subsequently revalued and depreciated, the same as other Property, Plant and Equipment.

The amounts payable to the PFI contractor each year are analysed into five elements:

- Fair Value of the service received in the year – charged to relevant service in the CIES.
- Finance Cost – the interest charge on the outstanding Balance Sheet liability, charged to the Finance and Investment line in the CIES.
- Contingent Rent – lease payments that increase or decrease as a result of changes in factors occurring subsequent to the inception of the lease, other than the passage of time.
- Payment towards the liability – applied to the Balance Sheet Liability.
- Lifecycle Costs – additional expenditure on assets either added as prepayment for the asset or to the service lines where not material, when the relevant work is carried out.

The schemes accounted for in this way are detailed further in the notes to the accounts.

## 21. Provisions, Contingent Liabilities and Assets

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing or amount of the transfer is uncertain. Such obligations need not be legal obligations, but can arise where the Council has created valid expectations that an obligation will be discharged.

Provisions are charged to the appropriate revenue account when the council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year

– where it becomes more likely than not that a transfer of economic benefits will not be required the provision is reversed and credited back to the relevant revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim) this is only recognised as income in the relevant revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Contingent liabilities arise where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Council. Contingent assets arise where an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Both contingent items are not recognised in the Balance Sheet but disclosed further in the notes to the accounts.

Landfill Allowance Schemes, whether allocated by the Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as government grant. After initial recognition, allowances are measured at the lower of cost and net realisable value. As landfill is used, a liability and expense are recognised. The Liability is discharged either by surrendering allowances or payment of a cash penalty to DEFRA. The liability is measured at the best estimate of expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However where some of the obligation will be met by paying a cash penalty to DEFRA, that part of the liability is measured at the cost of the penalty.

## **22. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. They are created by appropriating amounts out of the General Fund balance in the Movement in Reserves Statement. When expenditure to be funded from the reserve is incurred it is charged to the appropriate service in year in the CI&ES. The Reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement. This avoids an impact in year on the General Fund Balance.

Certain reserves are kept to manage the accounting process for non-current assets, financial instruments, retirement and employee benefits and do not represent useable resources for the Council. These reserves are explained in further detail in Note 5 to the accounts.



### **23. Revenue Expenditure Funded from Capital Under Statute**

Expenditure incurred during the year that may be capitalised under statutory provision but does not result in the creation of fixed assets has been charged as expenditure to the relevant service revenue account in the CIES, in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement from the General Fund balance to the Capital Adjustment Account, so there is no impact on the level of Council Tax.

### **24. VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income.

### **Accounting standards issued but not adopted**

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

The following accounting standards have been issued but have not been adopted under the Code of Practice for 2015/16. They will apply under the Code of Practice for 2016/17, which takes effect from 1<sup>st</sup> April 2016.

### **IAS 1 Presentation of Financial Statements**

Changes to IAS1 and the publication of CIPFA's 'Telling the Story' review will result in a significant changes to the format of the Comprehensive Income & Expenditure Statement, Movement in Reserves Statement and a new Expenditure & Funding Analysis to replace the segmental analysis provided in Note 21.

The changes are presentational and will not affect the figures presented in these accounts, although these will be re-presented as comparative figures in the new formats.

### **Other changes due to Annual Improvement to IFRSs**

The International Accounting Standards Board has an annual process for reviewing and improving its standards. There have been amendments to standards that have not yet been incorporated into the Code of Practice. These affect IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets, IAS 19 Employee Benefits and IFRS11 Joint arrangements. The impacts of these changes are not significant and are not expected to have a material effect on the Council's Statement of Accounts.



## **Highways Network Assets**

The CIPFA Code of Practice on Highways Network Assets (the HNA Code) takes effect from 1 April 2016.

The change will require the Council to account for its highway network as a single asset valued on Depreciated Replacement Cost. This valuation basis looks at the cost of replacing the asset with a modern equivalent and differs from the historic cost basis on which infrastructure assets are currently valued whereby the value relates to the amounts spent on them.

The change is likely to result in a very significant upwards revaluation of these assets but the Code of Practice for 2016/17 will not require retrospective application of this change to produce 2015/16 comparative figures. There is no impact on the 2015/16 Statement of Accounts.

## **SECTION 7 - ANNUAL GOVERNANCE STATEMENT 2015-16**

### **1. Background**

Leicester City Council is responsible for ensuring that its business is conducted in accordance with the law; proper standards; that public money is safeguarded; properly accounted for; and, used economically, efficiently and effectively.

It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Leicester City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Leicester City Council has approved and adopted a code of corporate governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives (CIPFA/SOLACE) framework *Delivering Good Governance in Local Government*. A copy of the code is on our website or it can be obtained from Customer Services.

This statement is produced in fulfilment of the requirements of regulations 4(2) and 4(3) of the Accounts and Audit (England) Regulations 2011.

### **2. Introduction**

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

Local government continues to undergo significant changes and the environment in which it works remains complex. As well as being provided directly, public services are increasingly delivered through commissioning, partnerships and collaboration, with many shared services and partnership boards now in existence. The introduction of new structures and ways of working provides challenges for managing risk, ensuring transparency and demonstrating accountability.

The system of internal control is the most significant part of the Council's governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and may only provide reasonable, not absolute, assurance of effectiveness.

The system of internal control is based on a continuous process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Leicester City Council for the year ended 31 March 2016 and up to the date of approval of the accounts.

### **3. The Governance Framework**

The Council has in place an assurance framework that takes the Council's principal strategic and organisational objectives as its starting point, including the City Mayor's five 'pledges' for Leicester. Key strategies and plans translate these objectives into deliverable actions. High-level risks that threaten the achievement of objectives are identified in the strategic and operational risk registers. It is the responsibility of management to establish and maintain effective systems of governance and internal control to ensure that the Council's service objectives are delivered and risks to those objectives are managed in accordance with the Council's Risk Management Strategy and Policy.

In order that the Council's business is delivered in a way that promotes public trust and confidence, there must be sufficient assurance that sound internal control arrangements are in place and operating effectively. The assurance framework brings together various internal and external sources of assurance with internal audit being fundamental to this.

The Council is also required to carry out, at least annually, a review of the effectiveness of its system of internal control. All Directors do this by means of positive assurance in the form attached at Appendix A. The intention of the assurance framework is, therefore, to set out a structured and coordinated process, drawing together the outcomes of the various assurance, governance and control mechanisms to ensure that the Annual Governance Statement is comprehensive in its coverage and reliable in its content.

### **4. Review of Effectiveness**

The Council is committed to the maintenance of a system of internal control which:

- Demonstrates openness, accountability and integrity;
- Monitors and reviews compliance with policies, procedures, laws and regulations and effectiveness against agreed standards and targets;
- Monitors and reviews the effectiveness of the operation of controls that have been put in place;
- Identifies, profiles, controls and monitors all significant strategic and operational risks.

The risks identified are subject to regular review and appropriate controls are identified to manage them. The results of that review, together with the three measures below, provide the core information for the preparation of the Annual Governance Statement:

- An independent review of the effectiveness of internal control carried out by the Council's Internal Audit team

- An annual review of the Effectiveness of the System of Internal Audit, as required by the Accounts and Audit Regulations (England) 2011
- The External Auditor's Annual Audit Letter and Annual Governance Report which include findings from the work of other inspection regimes,

Leicester City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, Internal Audit's annual report and opinion, and by comments made by the external auditors and other review agencies and statutory inspectorates.

The Council's Local Code of Corporate Governance complies with CIPFA/SOLACE's guidance *Delivering Good Governance in Local Government* and includes a self-assessment of compliance with the six core principles of good governance. The results of that assessment are set out in the Directors' Certification at Appendix A.

## **5. Significant Governance Issues**

The Council's control frameworks enable the identification of any areas of the Council's activities where there are significant concerns in the financial controls, governance arrangements or the management of risk. Having considered all the principles within the CIPFA *'Code of Practice on Managing the Risk of Fraud and Corruption'*, we are satisfied that the Council has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Overall, it can be concluded that controls are operationally sound and that the Council's financial management arrangements conform with the governance requirements of the CIPFA *'Statement on the Role of the Chief Financial Officer in Local Government (2010)'* as set out in the Application Note to *'Delivering Good Governance in Local Government: Framework'*.

Areas of significant risk or priorities for action have been identified and are listed at Appendix A below. This is in two parts:

- Those items identified in the Annual Governance Statement for 2014-15, with the action taken since to address them
- Additional items identified in 2015-16, together with a summary of the action being taken or planned to make the necessary improvements.

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.

**Signed:**

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**City Mayor**

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**Chief Operating Officer**

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**Director of Finance**

## **Appendix A - Leicester City Council Annual Governance Statement 2015-16**

### **Directors' Certification**

Leicester City Council is required to demonstrate that its governance processes and procedures comply with the six CIPFA/SOLACE fundamental principles of corporate governance. These are listed below with the principal sources of evidence or assurance:

#### **A. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area:**

- The pledges set out in the City Mayor's 2015 manifesto form the basis of the key priorities and focus of work for the authority. Major strategic documents setting out the vision for specific areas of work are in place, including the Economic Action Plan, Local Transport Plan, Health and Wellbeing Strategy, Sustainability Action Plan, Children's Improvement Plan and Heritage Action Plan.
- A major programme of work is being successfully delivered to support regeneration and economic development in the City. This includes a significant programme of capital projects and programme of activity to support business growth and increased employment levels for Leicester's residents. Appropriate programme management and partnership arrangements are in place, most notably the Leicester & Leicestershire Enterprise Partnership.
- The Council has an equality and diversity strategy which helps ensure we meet our public sector equality duties and focus on the needs of communities particularly in relation to the 'protected characteristics' defined by the 2010 Equality Act.
- Robust safeguarding arrangements are in place to mitigate the risk of harm to children and vulnerable adults, supported by established Safeguarding Boards.
- Departments have established their own performance management arrangements to underpin both the vision and manifesto commitments including, where appropriate, departmental plans and regular performance monitoring and reporting. A Performance Group for Children's social care and safeguarding services has been established to reinforce the departmental performance management arrangements in this critical area. Housing have developed a rolling programme of 'per challenge using Performance Clinics'. Continuing to improve the rigour of performance management across the Council remains a priority.
- Organisational vision and values have been developed for staff and work continues to implement these which will underpin policies like performance management.

**B. Members and officers working together to achieve a common purpose with clearly defined functions and roles;**

- The Council's Constitution is kept under regular review and has been extensively updated in a number of areas to account for both legislative changes and the continued development of governance arrangements and practice.
- The 'Political Conventions' within the Constitution offer clear advice on the working relationships between officers and members and the City Mayor and his Executive.
- Formal and informal working between the Executive and officers is well established.
- Lead Directors are in place to support scrutiny commissions.

**C. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;**

- The code of conduct and standards regime for elected members which was introduced in July 2012 is becoming embedded and has been reviewed to ensure it remains fit for purpose. New independent members have been appointed to fill vacancies which existed on the Standards Committee.
- The staff code of conduct was revised and agreed in 2013-14.
- As noted above a defined organisational vision and values have been developed to reinforce the organisational purpose, vision and values to staff and a programme to formally launch and embed these is now in development.
- A programme of reviews of key human resources policies and associated procedures continues for example, the attendance management policy and procedure was reviewed and a new policy and procedure agreed in 2014-15.
- The number of complaints to the Local Government Ombudsman has reduced.
- Robust management practices continue for issues such as attendance management and controls around spending e.g. agency staff, consultancy, etc.
- There are regular mechanisms for engagement with the recognised trade unions around staffing and workforce issues.
- There are well established programme and project management standards along with corporate oversight and support to ensure those involved in the governance and delivery of projects and programmes understand and are able to adhere to the expected standards.
- There is an established and effective system of internal control and internal audit, aimed at ensuring proper use of resources and giving

assurance on the effectiveness of the arrangements for the management of risk. The system of internal audit, which includes the fulfilment of its role by the Audit & Risk Committee, has been reviewed for effectiveness.

- The Council's Fraud and Investigations teams have been thoroughly reviewed, re-organised and re-launched and have given added emphasis to the Council's 'zero tolerance' attitude to fraud.

**D. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;**

- Risk, financial, legal, equalities and sustainability implications are considered within the decisions taken.
- Strategic and operational risk registers are regularly considered and reviewed.
- Information assets and the supporting information infrastructure are subject to appropriate governance controls to mitigate risk whilst supporting partnership working and compliance with transparency requirements.
- Processes for forward planning, taking and publication of Executive decisions under the mayoral model are defined and are supported by officer guidance.
- There is a recognised approach for taking executive decisions in line with recently changed legislation on this issue.
- Work has been done to define and develop procedures for the taking and recording of formal officer decisions.
- A Capital Advisory Board is now well established, chaired by the Strategic Director for City Development and Neighbourhoods. This has senior officer representation from legal, finance, property, procurement, governance and programme management who provide rigorous challenge and oversight of capital projects and programmes at key gateway points.
- There is a regular review of pay including the process by which posts are evaluated to ensure this is consistent and robust.

**E. Developing the capacity and capability of members and officers to be effective;**

- A comprehensive programme of induction for members was delivered following the May 2015 elections. A rolling member development programme for members is being implemented which has included ensuring there are identified dates throughout the municipal year kept clear of formal governance meetings and ear-marked for member development sessions.
- Member and Civic Support Services are taking a lead on scoping, planning and supporting delivery of member development.



- The accommodation strategy seeks to maximise the productivity of the workforce and support positive collaboration.
- The HR review, which took place in 2015, defined a new approach to staff development and put in place an Organisational Development Team which replaced the previous Learning and Development function. This new team is working to define and develop an approach to development which is better informed and needs led.
- The staff intranet continues to provide a key source of guidance for staff on policies, procedures, governance and other aspects of the Council's operations.
- Talent-match has been developed and piloted as an internal jobs market approach as a means of effectively recruiting staff and minimising the costs associated with redundancy. An evaluation of this is currently being undertaken.

**F. Engaging with local people and other stakeholders to ensure robust public accountability.**

- There is a more robust and consistent approach to consultation through the work of the Communications and Marketing Team.
- The consultation platform, Citizen Hub, provides an effective on-line approach to support consultations across the Council.
- There remains a strong focus on media engagement and external communication. Work is underway to develop a new e-newsletter for residents. The number of followers of the Council's social media profiles continues to increase monthly.
- Key strategic partnerships are in place around major themes and operating in accordance with legislation where relevant, such as Health and Wellbeing and Leicester and Leicestershire Economic Partnership.
- The City Mayor's Faith and Community Forum has been operating for over a year to support effective engagement with key communities, especially (but not exclusively) those identifying with the protected characteristic of religion or belief. This is key to supporting integration and cohesion with the city and our public sector equality duty.
- A short digest of our constitution is published on our website aimed at making the key governance arrangements of the Council clearer and more accessible.
- The Council's website has been fundamentally redeveloped to support on-line transactions and engagement and to provide key up to date and relevant information to the public in an easily accessible and user friendly format. Feedback to date has been very positive and the numbers of users continues to grow.
- The Council has reviewed the services it commissions from the voluntary and community sector to support engagement with key communities

across the protected characteristics of faith, race, sexual orientation and gender identity. A new community engagement fund has been launched to support the Council in meeting its Public Sector Equality Duty.

- A programme to drive forward channel shift is in place. Channel shift is about moving as much customer contact away from expensive face to face and telephony channels as possible. In doing so improving service standards and the user experience, and protecting a core face to face service for those who really need it. This is underpinned by a new customer relationship management (CRM) system which has been procured and implemented.
- Work has taken place to review the Council's complaints and enquiries system and to link this with the new CRM system, in order to improve the management and reporting of complaints.
- To ensure compliance with 'Homes and Community Agency' standards, and specifically the 'Neighbourhood Standard', Housing have introduced a 'Maintaining and Improving Neighbourhoods' policy and appropriate operational procedures to support and deliver this.
- The Council has in place processes for responding to external audit and inspection arrangements, with particular reference to the annual audit of the Council's published financial statements and the Annual Governance Statement.

### **Significant Governance Issues**

The Council's control frameworks enable the identification of any areas of the Council's activities where there are significant weaknesses in the financial controls, governance arrangements or the management of risk. Overall, it can be concluded that controls are operationally sound.

The areas of significant risk or priorities for action that have been identified are listed below:

**A. Items identified in the Annual Governance Statement for 2014-15, with the action taken since to address them.**

Area of significant risk or priority for action	Comment	Action planned	Action taken
Medium-term financial strategy	The Council approved £85m of spending cuts between 2010-11 and 2014-15 in response to unprecedented real terms cut in government funding. Whilst this has been carefully managed and the Council continues to live within its available resources, the governments most recent spending plans (February 2016) indicate a continued trajectory of reductions. The methodology adopted by government has adversely affected deprived authorities such as Leicester, who are more reliant on government grant. This now includes an impact to the Housing Revenue Account (HRA) with the reduction in social rents by 1% per annum for the period 2016 to 2020 in addition to Right to Buy sales reducing further and the High Value Vacant homes Levy charge due to be imposed on Local Authorities.	The Council continues to manage its medium term-financial strategy carefully, with significant input from the City Mayor and Executive. A process has been agreed and is under way to address the funding challenges the Council faces. This includes a managed reserves strategy to enable the City Mayor and Executive to properly plan and consider future reductions appropriately.	The Council's spending review programme is designed to address the need to reduce budgets, but this is a significant challenge. The HRA is auctioning and instigating a programme of change to the business to address and meet significant budget reductions over the next four years. These are being undertaken within the structure of the Housing Transformation spending review and cross cutting spending reviews.

Area of significant risk or priority for action	Comment	Action planned	Action taken
Performance management	There is a need to continue to ensure the effectiveness of performance management across the Council.	Children's Performance Group in place to review and strengthen performance management in this area. Corporate Management Team have introduced a monthly business and performance meeting into their cycle.	Departments have established their own performance management arrangements to underpin strategic priorities and plans, as well as wider operational delivery. This is supported by key systems including the new Liquid Logic system across adult and children's social care. There is a continued need to embed and assure the strength of these arrangements.
Voluntary and community sector engagement	There is a need for a more co-ordinated approach to managing our engagement with the Voluntary and Community Sector (VCS) and to be aware at an earlier stage of any emerging issues.	A review is underway of arrangements for working with the city's voluntary and community sector (VCS) to support engagements with communities. The manifesto also includes a commitment to review the way the Council involves and engages with the VCS.	The Council has reviewed the services it commissions in relation to: <ul style="list-style-type: none"> <li>• Support for the City's VCS; and,</li> <li>• Support for volunteering in the city.</li> </ul> New services were commissioned in these areas.

Area of significant risk or priority for action	Comment	Action planned	Action taken
The Care Act 2014	Reflecting the most significant reform in adult services in over 60 years, the Care Act builds on developments in adult social care away from paternalistic and managed care towards empowerment, choice and control for adults and carers.	Originally the Care Act was due to be introduced in two parts. Part one (April 2015) saw the introduction of a national eligibility criteria and carers assessments. . Part two of the Act was due to be implemented in April 2016, which would have seen the introduction of new funding reform. However the Government has deferred the implementation until 2020.	Processes are in place to monitor the impact of the changes via the Adult Social Care departmental Professional Standards and Governance Board.

Area of significant risk or priority for action	Comment	Action planned	Action taken
Continuing variable compliance with rules and procedures.	There is an increased risk that controls will be diluted as a result of streamlining of management structures in response to the current financial pressures. The consequent loss of experienced staff increases the risk of error. Moreover, these factors combined with the increased incentive brought about by financial hardship during a recession increase the risk of fraud.	Internal Audit assurance work in the 2015-16 audit plans.	Continuing requirement. Strengthening of senior management monitoring of compliance. Internal Audit has maintained an extensive programme of planned audit reviews supplemented by specially commissioned audits undertaken on the basis of risk to the Council. Service management has responded constructively to the conclusions of audit reviews and the recommendations made. Any matters of concern together with any non-implementation of recommendations are reported to the Audit & Risk Committee on a regular basis throughout the year.

<b>Previous years</b>		
<b>Area of significant risk or priority for action</b>	<b>Comment</b>	<b>Action taken</b>
Management and letting of contracts	<p>Significant work is being carried out to develop a procurement approach which delivers value for money from procuring goods and services whilst improving the skills and knowledge within the procurement teams.</p> <p>Some concerns remain, however, in relation to the management of contracts and the Internal Audit Contract Audit Plan included a number of contracts and procurement-related audits to help provide assurance in relation to this area.</p>	<p>Internal Audit has re-established its contract audit capacity. It now has a programme of contract audits, the scope of which includes the processes for procurement and contract management. Contract audit remains a priority in Internal Audit planning.</p>
Management of Payments to Service Users	<p>An Internal Audit identified significant weaknesses in the procedure for managing payments to service users.</p>	<p>Implementation of the Audit recommendations was managed via a joint response from the Adult Social Care and Business Service Centre teams.</p>
Improve engagement with stakeholders within Adult Social Care.	<p>Adult Social Care has now approved a Stakeholder Engagement Strategy to ensure effective engagement and increase co-production with their stakeholders.</p>	<p>The planned Stakeholder Engagement Strategy has been fully implemented and is used in key project activity.</p>

**B. Additional items identified, together with a summary of the action being taken or planned to make the necessary improvements.**

Area of significant risk or priority for action	Comment	Action planned
<p>Response to the recent 'OFSTED' inspection.</p>	<p>An Ofsted 'Inspection of Services for Children in Need of Help and Protection, Children Looked After and Care Leavers' published on 20<sup>th</sup> March 2015, graded Leicester's children's services as 'inadequate'.</p>	<p>In line with national requirements from the Department for Education (DfE) we have established an Improvement Board chaired by an experienced person approved by the DfE; and have submitted an Improvement Plan to Ofsted by 22<sup>nd</sup> June 2015.</p> <p>There are also a number of internal controls in place to ensure that work on the Ofsted recommendations progresses satisfactorily:</p> <ul style="list-style-type: none"> <li>• The Operational Improvement Group (which meets fortnightly) chaired by the Divisional Director, monitoring detailed service improvement plans for Early Help, Children in Need, Children Looked After and Workforce</li> <li>• The Performance Group (which meets monthly) examining the monthly report on key performance indicators and any other significant areas of Performance and Quality including progress against the Workforce Strategy</li> <li>• Service Performance Meetings in Early Help, CIN (Children in Need) and Children Looked After</li> <li>• Quality Assurance work being carried out to audit case files by external auditors</li> <li>• Regular reviews of progress and reports to the Audit and Risk Committee by Internal Audit.</li> </ul>

Therefore, all Directors have confirmed that they understand the responsibilities placed upon them and in particular that:

- Subject to the identified areas of significant risk and priorities for action, all of the services for which they are responsible have in place processes and



procedures that align to these principles and to the best of their knowledge and belief these processes are operating satisfactorily;

- The Directors as a management team set the 'tone from the top', embedding core values and principles throughout all Council service areas.

## **SECTION 8 - GLOSSARY**

This Glossary explains terms that may be encountered in discussion of Local Government finance. Definitions are intended to assist a general audience, rather than reflecting exactly the technical sense in which the terms are used.

### **Accountable Body**

An accountable body is an organisation which takes financial responsibility for the management of funds which comprise of contributions from multiple organisations; the fund itself is not a legal entity.

### **Accounting Policies**

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in the financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves. Accounting policies do not include estimation techniques.

### **Accruals**

The concept that items of income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

### **Actuarial Basis**

The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation.

### **Amortisation**

The reduction in an amount carried on the Balance Sheet by the regular debiting or crediting to an Income and Expenditure Account.

### **Appropriation**

The process of transferring balances from revenue to reserves and vice versa.

### **Assets**

Right or other access to future economic benefits.

### **Assets Held for Sale**

These are assets which are very likely to be sold within 12 months of the balance sheet date. They are therefore classified as Current Assets.

### **Audit of Financial Statements**

An audit is an examination by an independent expert of the authority's financial affairs to check that the relevant legal obligations and codes of practice have been followed.

### **Balance Sheet**

The Balance Sheet shows the assets and liabilities of the Authority.

### **Bonds**

Investment in certificates of debts issued by a Government or company. These certificates represent loans which are repayable at a future date with interest.

### **Budget**

The financial plan reflecting the Council's policies and priorities over a period of time.

### **Capital Expenditure**

Expenditure on the purchase, construction or enhancement of major items which have a lasting value to the authority.

### **Capital Financing**

The raising of money to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, direct revenue financing, usable capital receipts, capital grants, capital contributions and revenue reserves.

### **Capital Financing Requirement**

Reflects the authority's level of debt relating to capital expenditure.

### **Capital Programme**

The capital schemes the Authority intends to carry out over a specified time period.

### **Capital Receipts**

Money the Council receives from selling assets (buildings, land etc.). Capital receipts from the sale of housing assets cannot be used entirely to fund new capital expenditure; a proportion must be paid to government.

### **Central Support Services**

The provision of services which include finance, human resources, legal, information technology and property.

### **CIPFA (Chartered Institute of Public Finance and Accountancy)**

The principal accountancy body dealing with local government finance.

### **Code of Practice on Local Authority Accounting (The Code)**

A publication produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) that provides comprehensive guidance on the content of a Council's Statement of Accounts.

### **Collection Fund**

A separate fund recording the expenditure and income relating to Council Tax and NNDR.

### **Community Assets**

Assets that the Council intends to hold in perpetuity, that have no determinable useful lives and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

### **Community schools**

Schools which the Council run, employ the staff and normally owns and maintains the land and buildings (with the exception of PFI schools).

### **Comprehensive Income and Expenditure Statement**

This Statement reports the net cost of all services and functions for which the authority is responsible for.

### **Constitution**

The document that sets out how the Council operates, how decisions are made and the procedures which are followed.

### **Contingent Liabilities**

Liabilities which may or may not occur in the future. They often depend on future events for which the outcome cannot be predicted. Due to their uncertainty they do not appear in the balance sheet.

### **Council**

The Council comprises the City Mayor and all elected Councillors who represent the various electoral divisions.

### **Council Tax**

This is a tax, which is levied on the broad capital value of domestic properties, and charged to the resident or owner of the property.

### **Council Tax Base**

This is a figure that expresses the total band D equivalent properties. The amount to be funded by Council Tax is divided by this, and charges for all other bands of property are based on this charge.

### **Council Tax Precept**

The amount of income due to Leicestershire Police Authority and Leicester, Leicestershire and Rutland Combined Fire Authority from the Council, who are responsible for billing Council Tax.

### **Creditors**

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

### **Debits and Credits**

A debit represents expenditure against an account and a credit represents income to an account.

### **Debt Charges**

This represents the interest payable on outstanding debt.

### **Debtors**

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

### **Dedicated Schools Grant**

A ring-fenced grant from the government that has to be used to fund the delegated budget of each school, together with certain items of related central expenditure.

### **Deficit**

Arises when expenditure exceeds income or when expenditure exceeds available budget.

### **Depreciation**

The term used to describe the charge made for the cost of using tangible fixed assets. The charge for the year will represent the amount of economic benefits consumed (i.e. wear and tear).

### **Direct Revenue Financing**

The cost of capital projects that is charged against revenue budgets.

### **Equities**

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings.

### **Executive**

The City Mayor, Deputy City Mayor and Assistant City Mayors provide the executive function of the Council. The Council's Constitution sets out what matters are reserved to Council and its committees rather than the Executive.

### **Finance Lease**

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

### **Finance Procedure Rules**

These provide the framework within which the Council conducts its financial affairs. Finance Procedure Rules are supplemented by Codes of Practice giving detailed guidance for financial practice in the Council.

### **Financial Instruments**

Financial instruments are formally defined in the Code as contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### **Financial Reporting Standards (FRSs)**

Statements prepared by the Financial Reporting Council. Many of the Financial Reporting Standards (FRSs) and the earlier Statements of Standard Accounting Practice (SSAPs) apply to local authorities and any departure from these must be disclosed in the published accounts.

### **Foundation schools**

Schools run by their own governing body, which employs the staff and sets the admissions criteria. Land and buildings are usually owned by the governing body or a charitable foundation.

### **General Fund**

The Council's main revenue account, covering the net cost of all services other than Council housing.

### **Going Concern**

The going concern accounting concept assumes that the organisation will not significantly curtail the scale of its operation in the foreseeable future.

### **Government Grants**

Payment by Government towards the cost of local authority services. These are either for particular purposes or services (specific grants) or in aid of local services generally (formula grant).

### **Housing Benefits**

A system of financial assistance to individuals towards certain housing costs administered by local authorities and subsidised by central government.

### **Housing Revenue Account (HRA)**

A separate account to the General Fund which includes the expenditure and income arising with the provision of housing accommodation by the Council. The HRA is ring-fenced: no cross subsidy is allowed between the HRA and the General Fund in either direction.

### **Impairment Loss**

A material reduction in the value of fixed assets outside the normal periodic revaluations.

### **Inflow**

This represents cash coming into the Council.

### **Internal Audit**

An independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation.

### **International Financial Reporting Standards (IFRSs)**

These are guidelines for the production of financial statements. Many of these now apply to local authorities and departure from these must be disclosed in the published accounts.

### **International Financial Reporting Interpretations Committee (IFRIC)**

Aims to provide guidance on newly identified financial reporting issues not specifically dealt with in IFRSs.

### **Inventories**

Comprises; goods or other assets purchased for resale; consumable stores; raw materials and components purchased for incorporation into products for sale; products and services in intermediate stages of completion, long term contract balances and finished goods.

### **Investments**

An asset which is purchased with a view to making money by providing income, capital appreciation or both.

### **Joint Venture**

An organisation for which the Council has partial control and ownership, but decisions require the consent of all participants.

### **Leasing**

A method of financing the acquisition of assets, notably equipment, vehicles and plant. This is normally for an agreed period of time, up to several years.

### **Levy**

A charge made by an outside organisation, which has to be met from within the Council's overall budget.

### **Liabilities**

An obligation to transfer economic benefits. Current liabilities are payable within one year.

### **Liquid Resources**

These are resources that the Council can easily access and use, e.g. cash or investments of less than 1 year.

### **LOBO Loans**

Lender Option, Borrower Option loans. This is a loan in which the lender can, at a predetermined time, request to change the interest rate at which the loan is being charged. If the borrower does not agree to the rate change, the borrower then has the option to repay the loan.

### **Long Term Borrowing**

Loans raised to finance capital spending which have to be repaid over a period in excess of one year from the date of the accounts.

### **Materiality**

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

### **Minimum Revenue Provision (MRP)**

A minimum amount, set by law, which the Council must charge to the income and expenditure account, for debt redemption or for the discharge of other credit liabilities (e.g. finance lease).

### **Movement In Reserves Statement**

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'useable reserves' (i.e. those that be applied to fund expenditure or reduce local taxation) and other reserves.

### **National Challenge Co-operative Trust Schools**

These schools are formed under the previous Government's National Challenge initiative to improve academic achievement. When Trust status is attained all assets normally transfer to the Trust body.

### **National Non-Domestic Rate (NNDR)**

Represents the rate of taxation on business properties. Central Government have the responsibility for setting the rate and Local Authorities are responsible for the billing and collection of the tax.

### **Net Book Value**

The amount at which non-current assets are included in the balance sheet. It represents historical cost or current value less the cumulative amounts provided for Depreciation or Impairment.

### **Net Expenditure / Net Cost of Service**

The actual cost of a service to an organisation after taking account of all income charged for services provided.

### **Non-Current Assets**

Assets that yield benefits to the Council for a period of more than one year, examples include land, buildings and vehicles.

**Operating Lease**

A lease where an asset is used only for a small proportion of its economic life.

**Operational Assets**

Fixed assets held and occupied in the pursuit of strategic or service objectives.

**Outflow**

This represents cash going out of the Council.

**Precept**

An amount charged by another authority to the Council's Collection Fund. There are two preceptors on Leicester's collection fund: the Police and Fire Authorities.

**Prior Period Adjustments**

These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors.

**Private Finance Initiative**

An initiative for utilising private sector funding to provide public sector assets.

**PFI Credits**

The financial support provided to Local Authorities to part fund PFI capital projects.

**Provision**

An amount of money set aside in the budget to meet liabilities that are likely or certain to arise in the future, but which cannot be quantified with certainty.

**Prudential Borrowing**

This gives local authority's freedom to borrow within prudent, affordable and sustainable limits.

**Prudential Indicator**

Linked to "Prudential Borrowing" above these are calculations that indicate if borrowing is within prudent, affordable and sustainable limits.

**Public Works Loan Board (PWLB)**

A government agency providing long and short-term loans to local authorities. Interest rates are generally lower than the private sector, and slightly higher than the rates at which the Government may borrow.

**Remuneration**

All sums paid to or receivable by an employee and sums due by way of expenses allowances and the monetary value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

**Revaluation Reserve**

This reserve contains revaluation gains on assets recognised since 1 April 2007 only, the date of its formal implementation.

**Reserves**

Sums are set aside in reserves for future purposes rather than to fund past events. Earmarked reserves are those established for a specific purpose.

**Revenue Expenditure**

Represents day-to-day running expenses, e.g. salaries, fuel etc.

**Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

This is expenditure that is classified as capital although it does not result in the creation of a fixed asset belonging to the Council.

**Revenue Support Grant**

A non-ring-fenced government grant which can be used by the authority to finance revenue expenditure on any service.



**Royal Institute of Chartered Surveyors (RICS)**

A professional body for land, property, construction and environmental related issues.

**Service Reporting Code of Practice**

SeRCOP (BVACOP) establishes 'proper practice' for consistent financial reporting, which allows direct comparisons to be made with financial information published by other local authorities.

**Specific Grants**

Grants paid to the Council for a specific purpose, including housing benefit, housing improvement, etc.

**Subsidiary**

An organisation that is under the control of the Council or the Council is the majority share holder.

**Surplus**

Arises when income exceeds expenditure or when expenditure is less than available budget.

**Trading Services**

These are services operated by the Council which largely trade with other departments of the Council, and with external clients.

**Trading Accounts**

A service run in a commercial style and environment, providing services that are mainly funded from fees and charges levied on customers.

**Usable Capital Receipts Reserve**

Represents the resources held by the Council that have arisen from the sale of non-current assets that are yet to be spent on other capital projects.

**Voluntary-aided schools**

Schools which are mainly religious or 'faith' schools, the governing body, employs the staff, and sets the admission criteria. Buildings and land are normally owned by a charitable foundation.

**Voluntary-controlled schools**

Schools which the Council run, employ staff, set admission criteria, and maintain land & buildings. But normally are owned by a charity, who appoints members to the governing body



