

Leicester
City Council

MEETING OF THE AUDIT AND RISK COMMITTEE

DATE: WEDNESDAY, 21 JULY 2021

TIME: 6:30 pm

PLACE: Meeting Room G.01, Ground Floor, City Hall, 115 Charles Street, Leicester, LE1 1FZ

Members of the Committee

Councillor Kaur Saini (Chair)

Councillor Pantling (Vice-Chair)

Councillors Ali, Joshi, Dr. Moore, Rahman and O'Donnell

One Non-Group vacancy (to be notified)

Members of the Committee are summoned to attend the above meeting to consider the items of business listed overleaf.

for Monitoring Officer

Officer contact: Angie Smith
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Leicester City Council,
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Further information

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PUBLIC SESSION

AGENDA

FIRE / EMERGENCY EVACUATION

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1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF INTEREST

Members are asked to declare any interests they may have in the business to be discussed.

3. MINUTES OF THE PREVIOUS MEETING

Appendix A
(Pages 1 - 14)

The minutes of the meeting of the Audit and Risk Committee held on 17 March 2021 are attached and the Committee is asked to confirm them as a correct record.

4. MEMBERSHIP OF THE AUDIT & RISK COMMITTEE 2021/22

Members are asked to note the membership of the Committee for 2021/22 as:

Councillor Kaur Saini (Chair)
Councillor Pantling (Vice-Chair)
Councillor Ali
Councillor Joshi
Councillor Dr. Moore
Councillor O'Donnell
Councillor Rahman

1 unfilled non-Group vacancy

5. DATES OF MEETINGS OF THE AUDIT AND RISK COMMITTEE 2021/22

Members are asked to note the meeting dates of the Committee for the 2021/22 municipal year as:

21 July 2021
29 September 2021
24 November 2021
16 March 2022

Meetings are scheduled to take place at 5.30pm (or 6.30pm if Members training /briefings are arranged before the main meeting).

6. TERMS OF REFERENCE

Appendix B
(Pages 15 - 20)

Members are asked to note the Terms of Reference for the Committee as attached.

**7. REGULATION OF INVESTIGATORY POWERS ACT
2000: BI-ANNUAL PERFORMANCE REPORT
JANUARY 2021 - JUNE 2021**

Appendix C
(Pages 21 - 22)

The City Barrister and Head of Standards submits a report advising on the performance of the Council in authorising Regulatory Investigation Powers Act (RIPA) applications from 1st January 2021 to 30th June 2021.

The Committee is recommended to receive the report and note its contents, and make any recommendations or comments it sees fit either to the Executive or to the City Barrister and Head of Standards.

**8. NATIONAL FRAUD INITIATIVE 2021/2022 UPDATE
REPORT**

Appendix D
(Pages 23 - 28)

The Deputy Director of Finance submits a report to provide the Audit and Risk Committee on the National Fraud Initiative (NFI) exercises currently underway.

The Committee is recommended to receive and comment on the report and make any recommendations it sees fit to the Executive and/or the Chief Operating Officer / s151 officer or Deputy Director of Finance.

9. COUNTER FRAUD REPORT 2020

Appendix E
(Pages 29 - 34)

The Deputy Director of Finance submits a report to the Audit and Risk Committee on the work carried out by the Corporate Investigations Team for the period 1st April 2020 to 31st March 2021.

The Committee is recommended to receive and comment on the report and make any recommendations it sees fit to the Executive and/or the Chief Operating Officer / s151 officer or Deputy Director of Finance.

**10. EXTERNAL AUDIT PLAN - YEAR ENDING 31 MARCH
2021**

Appendix F
(Pages 35 - 60)

The External Audit Plan prepared by Grant Thornton is submitted to the Audit and Risk Committee which provides an overview of the planned scope and timing of the statutory audit of the Council for those charged with governance.

11. DRAFT STATUTORY STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT 2020/21 **Appendix G**
(Pages 61 - 234)

The Chief Operating Officer submits a report to the Audit and Risk Committee which provides an opportunity for the Committee to consider the Council's Draft Annual Statement of Accounts for 2020/21, before being brought back to Committee for formal approval.

The Committee is recommended to receive the Draft Annual Statement of Accounts for 2020-21 and the Draft Annual Governance Statement 2020-21 at Appendix A.

12. REPORT OF THE AUDIT AND RISK COMMITTEE TO COUNCIL COVERING THE MUNICIPAL YEARS 2019/20 AND 2020/21 **Appendix H**
(Pages 235 - 240)

The Deputy Director of Finance submits a report to the Audit and Risk Committee for presenting to Council, which sets out the Committee's achievements over the Municipal Years 2019/20 and 2020/21.

The Committee is recommended to approve the report for submission to Council.

13. PROGRESS AGAINST INTERNAL AUDIT PLANS **Appendix I**
(Pages 241 - 256)

The Internal Auditor submits a report to the Audit and Risk Committee which provides a summary of progress against the 2020-21 & 2021-22 Internal Audit Plans, information on resources used to progress the plans, and summary of information on high importance recommendations and progress with implementing them.

The Committee is recommended to note the contents of the routine update report.

14. INTERNAL AUDIT SERVICE - ANNUAL REPORT 2020-21 **Appendix J**
(Pages 257 - 276)

The Internal Auditor submits an annual report to the Audit and Risk Committee which reports on internal audit work conducted during 2020-21. The report also contains information on the internal audit function's conformance to professional standards and provides an insight into its effectiveness.

The Committee is recommended to:

1. Receive and approve the contents of the Annual Report and Opinion
2. Note that for the year ended 31 March 2021, the HoIAS has reported that the Council's control environment overall remained adequate and effective.
3. Note that the individual assignment opinions expressed together with any significant matters arising from internal audit work have been given due consideration when developing and reviewing the Authority's Annual

Governance Statement for 2020-21.

4. Note the outcomes of the HoIAS self-assessment against the PSIAS and QAIP.
5. Make any recommendations it sees fit to the Chief Operating Officer/s151 officer, the Deputy Director of Finance or the Executive.

15. FURTHER UPDATE ON DEVELOPMENTS IN LOCAL (EXTERNAL) AUDIT ARRANGEMENTS **Appendix K**
(Pages 277 - 282)

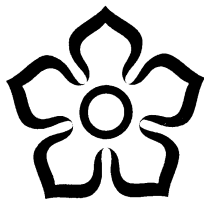
The Internal Auditor submits a report which provides the Audit and Risk Committee with a further update on developments in local (external) audit arrangements, that are associated with the Committee's responsibilities.

The Committee is recommended to note the report.

16. AUDIT & RISK COMMITTEE WORKPLAN **Appendix L**
(Pages 283 - 284)

The workplan for the Audit and Risk Committee is attached.

17. ANY OTHER URGENT BUSINESS



Leicester
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Appendix A

Minutes of the Meeting of the AUDIT AND RISK COMMITTEE

Held: WEDNESDAY, 17 MARCH 2021 at 5:00 pm

P R E S E N T:

Councillor Pantling (Chair)
Councillor O'Donnell (Vice Chair)

Councillor Bajaj
Councillor Joshi

Councillor Kaur Saini
Councillor Dr Moore

* * * * *

73. APOLOGIES FOR ABSENCE

There were no apologies for absence.

74. DECLARATIONS OF INTEREST

There were no declarations of interest.

75. MINUTES OF THE PREVIOUS MEETING

RESOLVED:

That the minutes of the meeting held on 24 November 2020 be confirmed as a correct record.

76. THE ANNUAL AUDIT LETTER FOR LEICESTER CITY COUNCIL

The External Auditor submitted for noting the Annual Audit Letter to the Audit and Risk Committee which summarised the key findings arising from the work carried out at Leicester City Council for the year ending 31 March 2020.

Grant Patterson, External Auditor reported the findings drew on reports previously submitted to the Committee. The External Auditors confirmed they had issued an unqualified opinion on the Council's financial statements. The following points were highlighted:

- There was an emphasis of matter in respect of the uncertainty over valuations of the Council's land and buildings and the Council's share of the

pooled property assets of Leicestershire Pension Fund given the Coronavirus pandemic and was consistent with councils across the country. It was reported it had not affected the opinion but was just a statement to support the importance that readers recognised the financial uncertainties within the financial statements.

- Further noted that an unqualified value for money conclusion was given in relation to the Council's economy, efficiency and effectiveness in its use of resources.
- It was reported that the Whole of Government Accounts had been submitted on 25 February 2021 which enabled the External Auditors to certify the audit closed. It was noted this delay was due to a national issue with the system and not due to a delay with the External Auditors or the Council.
- The External Auditors reported they were comfortable with the way the Council in general had addressed the pandemic and moved to remote working, and no issues were identified. In relation to material uncertainties, the authority had also provided an update in the accounts on the impact on its funding streams for the financial statements.
- The report highlighted matters around the value of Property, Plant and Equipment which weren't material. The Council had decided not to amend for these matters and would pick up as part of the 2020/21 accounts.
- Members were further reminded that looking at estimates moving forward would be a continuous focus of the external auditor's work improving its quality assurance arrangements and making the sure the Council had the right information to support assumptions used in the preparation of the accounts.
- Highlighted were the audit fees and how they had changed as the audit progressed in relation to in the impact of Covid-19 and additional auditing requirements.

The Chair thanked the External Auditor for the report, and noted the Executive Summary thanking the Council staff for the assistance and cooperation given, and noted the appreciation was given both ways.

RESOLVED:

1. That the report be noted.

77. AUDIT PROGRESS REPORT AND SECTOR UPDATE

The External Auditor submitted a report for noting which provided the Audit and Risk Committee an update on progress in delivering their responsibilities as external auditors.

Nicola Coombe, External Auditor presented the report and drew Members' attention to the following points:

- The report included the outcome of the audit-related assurance work in relation to the certification of claims and returns. There were three claims, all of which for the for the avoidance of doubt involved certain procedures set by the relevant funding body namely Housing Benefits, Pooling of

- Housing Capital Receipts and Teachers Pensions.
- For the Housing Benefit assurance process, as in prior years, work had resulted in a qualification letter, but the level of errors had reduced, primarily as a result of the Council's quality assurance team's work.
 - Teachers Pensions and Housing Capital Receipts audits had not identified any issues.
 - For future audits of the Statement of Accounts the focus will continue to be the valuation of land and buildings and valuation of net pension liability. The focus is going to be enhanced further as a result of the new auditing standard on estimates.
 - The External Auditors reminded the Committee that as those charged with governance it was important Members understood the judgements and estimates that are included in the accounts.
 - It was reported the new Code of audit practice for 2021 issued by the National Audit Office changed how the value for money part of the audit was required to be delivered. The three main changes were improving the reporting on the three e's (economy, efficiency and effectiveness), financial sustainability and governance. There was now a requirement for auditors to provide a commentary on arrangements across all three areas. It was noted there would no longer be a Value for Money conclusion, but a fuller commentary in the form of an Auditor's Annual Report.

In response to Members' questions the following points were made:

- The three e's were referenced and it was asked why the word efficacy was not considered. It was noted that as part of decision making Members should have all information in front of them to make the right decision. When looking at decision making, External Auditors looked at the arrangements in place to enable the Council to make the correct and proper decisions.
- It was noted that some of the reports and conversation presented to Members of the Audit and Risk Committee were complex and that training was required. It was noted that future training was planned for Members following Annual Council.

The Chair noted that the Audit and Risk Committee received complex reports and it could take a long time for Committee Members to understand. Members stressed the importance of training being delivered to Committee Members at the start of their time on the Committee.

RESOLVED:

1. That the report be noted.

78. INFORMING THE AUDIT RISK ASSESSMENT FOR LEICESTER CITY COUNCIL 2020/21 (MARCH 2021)

The External Auditor submitted a report for noting the purpose of which was to contribute towards effective two-way communication between the Council's external auditors and the Audit and Risk Committee as those 'charged with governance'. The report covered some important areas of the auditor's risk

assessment.

Nicola Coombe, External Auditor, highlighted the following points in the report:

- This process feeds into their risk assessment and was an iterative process throughout the audit. It was noted the questions had been enhanced for the new auditing standard.
- It was noted the responses were provided by management and this was the opportunity for Members to ensure this was their understanding of the Council.
- The External Auditor noted the significant impact of Covid-19 on the financial statements, such as Covid-related grants which would feature in the accounts for the first time, as well as a potential continued impact on the valuation of property, plant and equipment.
- There were some areas in the report, such as the identification of related party transactions which were incomplete at the time of writing the report as the process is currently being completed.
Estimates was a key focus of the report for 2020/21, as previously noted in earlier items.

Councillor Moore asked that future reports be represented in black and white to enable easier reading of documents.

RESOLVED:

1. That the report be noted.

79. REGULATION OF INVESTIGATORY POWERS ACT 2000 - BI-ANNUAL PERFORMANCE REPORT JULY 2020 - DECEMBER 2020

The City Barrister and Head of Standards submitted a report for noting to the Audit and Risk Committee which advised on the performance of the Council in authorising Regulatory Investigation Powers Act (RIPA) applications from 1 July 2020 and 31 December 2020 and sought comments on the reviewed Surveillance Policy.

Lynn Wyeth, Head of Information Governance and Risk, Data Protection Officer for the Council, and RIPA Monitoring Officer for the Council presented the report. Points made during the presentation included:

- 0 Direct Surveillance Authorisations had been made for the period.
- 0 Communications Data Authorisations were made as they were no longer undertaken by the Council as a matter of course, though Trading Standards might continue to make applications.
- The reviewed Surveillance Policy was noted, which covered all RIPA activities and also covered internal surveillance, such as directed or covert surveillance on employees and complied with the Information Commissioner's Office Employees Surveillance Activities.
- Since the report had been written, a survey had been sent to all staff following a recommendation that the Commissioner had given during the Council's last inspection. This survey asked if employees used social media

to check service users' profiles and therefore could be classed as continuous covert surveillance.

- For training purposes, officers were moving training from Learning Pool to in-house using Microsoft Office Sway. A training module on Data Protection was ready to be launched. A RIPA module would be developed for summer and Members would be invited to undertake the online training.

The Chair thanked the officer for the report.

RESOLVED:

1. That the report be received and its contents noted.

80. STRATEGIC AND OPERATIONAL RISK REGISTERS / HEALTH AND SAFETY DATA

The Director of Delivery, Communications and Political Governance submitted a report for noting to the Audit and Risk Committee which provided an update on the Strategic and Operational Risk Registers and Health & Safety data.

Sonal Devani, Manager for Risk Management, presented the report, and had been compiled following review by all Strategic Directors and the following points highlighted:

- Risks were summarised at Appendix 1 to the report.
- It was noted that 19 risks had been updated at Appendix 2, mainly to do with target dates. The risk controls to specific risks (2, 11, 16 and 17) were amended.
- Appendix 3 provided a summary of day-to-day risks for the operational running of the Council. Significant risks scoring 15 or above were transferred to the operational risk register. 21 risks were amended, 1 'deleted', and 4 added for the period. Members were reminded that where a risk was 'deleted' did not always elude to the risk being eliminated, but referred to the risk score no longer being high and so would not appear on the operational risk register, and was a sign that controls were working and risks were being managed and reduced.
- There was a 56% decrease in corporate incident reporting, such as Injury Incident, compared to the same quarter in 2019-20 thought to be due to Covid-19 restrictions and service closures.
- The Coronavirus pandemic had been recognised in divisional risk registers, though in most divisions had not scored highly as it was being managed effectively.

In response the questions from Members the following points were made:

- Members noted they received a snapshot in time with the risk registers and questioned about receiving a dynamic picture showing how a risk had changed over time instead of a static picture. The Manager, Risk Management clarified that by referring to Appendix 1, this indicates over a period of time how risks levels have changed. It is common that risks can remain static due to the nature of strategic risks.

- Members asked how long officers would tolerate a high risk, and if there was complacency in some areas. It was noted that questions on individual risks were best answered by Directors who would decide on how long they would want to, or need to, tolerate a particular risk. The Committee was reminded that risk owners could be called to this Committee to explain why risks remained high.
- Cyber risk was noted as high as when looking at the industry and globally it was seen as an unknown threat, but the Committee were assured it had good systems in place.
- Members noted in Appendix 3, 15 Adult Social Care and Safeguarding Mental Health scoring Impact 4 and Likelihood 5, and 17 Adult Social Care and Commissioning – Passenger transport for children and vulnerable adults also scoring 4(I) and 4(L) as causes for concern, and asked for further information on the risks. The Manager for Risk Management would contact the relevant risk owners and feedback.

Colin Sharpe, Deputy Director of Finance, picked up on the point made by Members on strategic scores which had not changed in over nine months or longer and would discuss the strategic risk registers with the Manager for Risk Management and Director for Delivery, Communications and Political Governance.

The Chair thanked the officer for the report.

RESOLVED:

That:

1. The Strategic Risk Register and Operational Risk Register be noted.
2. The Health Safety Data be noted.
3. Additional information on Appendix 3, 15 Adult Social Care and Safeguarding Mental Health and 17 Adult Social Care and Commissioning – Passenger transport for children and vulnerable adults be provided to Members by the Manager for Risk Management. discussion on risk registers and static scores to be held with the Deputy Director of Finance, Director for Delivery, Communications and Political Governance.

81. RISK MANAGEMENT AND BUSINESS CONTINUITY STRATEGY AND POLICIES 2021

The Director of Delivery, Communications and Political Governance submitted to the Audit and risk Committee the Risk Management and Business Continuity Policy Statement and Strategies which provided an effective framework for the Council to manage and respond to key risks facing its services and to support the delivery of its Business Plan.

The Audit and Risk Committee was recommended to consider and approve on behalf of the Council the updated Corporate Risk Management Policy Statement and Strategy at Appendices One and Two of the report.

Sonal Devani, Manager Risk Management presented the report. Members noted the following points:

- Significant changes were:
 - Expanding on the 'risk' definition referring to the ISO 31000 standard;
 - Adding the risk response column (4T's – treat, tolerate, terminate and transfer the risk) to be completed by the risk assessor.
- The Manager for Risk Management was working with HR to embed a positive risk culture, through training programmes and proactive reporting of risk.
- It was noted the business continuity management was a mitigation of risk. Both the strategy and policy were submitted at the same time as they were linked.
- Key deliverables were highlighted in the report, including assisting schools with business continuity planning. There was a school business continuity template provided to maintained schools and academies, which was reviewed annually. It was noted this service was charged to academies.
- Annually critical services plans were updated and sent to the Risk Management Team who held the information.
- By carrying out Business Impact Analysis, the plan was to reduce the number of critical services by possibly half from 40. It was noted that if there was an incident the replacement of 40 critical services would be difficult in the first instance. The Business Impact Analysis would help determine services that were really critical to the organisation to recover within set timescales. Adults, children and housing were critical, and it was questioned what else would need to be recovered immediately (within four hours).
- It was noted a major incident exercise with nominated staff would be planned.

The Chair thanked the Manager for Risk Management for the report.

RESOLVED:

That:

1. The report be noted.
2. The Audit and Risk Committee approve on behalf of Council the updated:
 - Corporate Risk Management Policy Statement and Strategy.
 - Corporate business Continuity Management: Policy Statement and Strategy.

82. ANNUAL REVIEW OF THE COUNCIL'S LOCAL CODE OF CORPORATE GOVERNANCE

The Deputy Director of Finance and City Barrister & Head of Standards submitted a report on updates to the assurance and corporate governance processes at the Council and the Local Code of Corporate Governance. The

Audit and Risk Committee were recommended to approve the Local Code of Corporate Governance.

Amy Oliver, Chief Accountant presented the report. Members received the following information:

- The annual report set out how the Council was committed to good governance, focussing on the governance framework for 2021/22 around plans and controls in place.
- The Audit and Risk Committee was one of those controls, along with Internal Audit and External Audit – all part of the control framework.
- The plans in the Appendix had been updated this year due to a change of focus around the Covid-19 recovery plans.
- When the accounts for 2021/22 were available, the Audit and Risk Committee would also receive an update on the Code as part of the Annual Governance Statement.

The Chair thanked the officer for the report.

RESOLVED:

1. That the Local Code of Corporate Governance be approved.

83. AUDIT AND RISK COMMITTEE TERMS OF REFERENCE

The Deputy Director of Finance submitted a report on revisions to the Terms of Reference for the Audit and Risk Committee. The Committee was recommended to support the proposed revisions to the Terms of Reference (ToR) and recommend to Council that they are adopted.

Amy Oliver, Chief Accountant presented the report. Noted were the following points made:

- In Appendix One & Two of the report, the updated ToR and existing could be compared, and main areas of change were outlined in the report.
- Members were being asked to support the ToR, before going to Council for approval.
- It was noted the plan was to take the updated ToR at the same time as the proposed changes to the constitution currently being prepared by the City Barrister. This meant the changes to the ToR were unlikely to be presented to the next Council meeting.
- The ToR were reviewed annually but would only be brought to Audit and Risk Committee if there were any major changes, such as a change in legislation.

The Chair thanked the officer for the report.

RESOLVED:

1. That the Audit and Risk Committee support the proposed revisions to the Terms of Reference and recommend to Council that they are adopted.

84. LEICESTER CITY COUNCIL INTERESTS IN THIRD PARTIES

The Deputy Director of Finance submitted a report for noting to the Audit and Risk Committee which provided an overview of the Council's relationship with other organisations in which it is a shareholder, member, and/or where officers and Members have roles on the board. The Audit and Risk Committee was recommended to note the report and support the next steps detailed and add any comments as Members saw fit.

Amy Oliver, Chief Accountant, presented the report. Points highlighted to Members were:

- The report had been brought to the Committee following concerns at other councils about the governance of wholly or partly owned companies.
- In the interest of good governance, the report aimed to identify the companies / organisations in which Leicester City Council had an interest, identifying involvement and potential exposure to risk.
- It was noted that Leicester City Council did not have the financial risk that some councils had currently.
- It was however noted that if some of the organisations were to fail there is potential reputational risk.
- The report details how acting as a Director for another organisation can lead to conflict with an officer or member role at Leicester City Council.
- Steps were set out in the report to ensure governance arrangements would remain, such as formalised training for officers and councillors, or if a partly owned company were to become active, then a report would be brought back to the Committee for a review of governance arrangements.

It was queried why there was a vacancy on the Fullhurst Learning Partnership. The Chief Accountant would provide detail on the reasons to Members in writing.

The Chair thanked the officer for the report.

RESOLVED:

1. That the report be noted.
2. The Audit and Risk Committee support the next steps detailed.
3. The Chief Accountant to provide detail on the reasons to for the vacancy on Fullhurst Learning Partnership to Members in writing.

85. INTERNAL AUDIT SERVICE - ANNUAL PLAN 2021-22

The Head of Internal Audit Service (HoIAS) submitted a report with an indication of internal audit work planned to be conducted during 2021-22. The Audit and Risk Committee were recommended to receive the plan, note its contents and seek clarification on any areas as they wished and then approve the plan, and to make any recommendations or comments to the HoIAS or

Deputy Director of Finance.

Neil Jones, HoIAS presented the report and drew attention to the following:

- The Committee was reminded that the Head of Internal Audit was to present the annual opinion on the overall adequacy and effectiveness of the City Council's control environment, namely its framework of governance, risk management and control.
- Ultimately, the Internal Audit opinion was one of the terms of assurance for the Council's annual governance statement.
- In order for the HoIAS to be able to reach an opinion a risk based annual audit plan is prepared. The plan was designed to give the Committee a reasonable and objective assurance on both new risks and business as usual, and to ensure they were being managed appropriately.
- Planning methodology was outlined in the report. It was noted it was the Corporate Management Team's responsibility to identify and manage risks and maintain controls.
- It was noted the plan was formed by reviewing risk registers and consulting with Directors on emerging risk, planned changes and potential issues.
- It was noted that the plan was only a statement of intent and there may be occasions arising that when it might need to be adjusted in response to Council's change in risk operations, for example, continuing impact and future changes around Covid-19.
- In conclusion the Annual Internal Audit Plan for 2021/22 hopes to give the Council optimal audit coverage with the resources available.

Councillor Joshi noted that all elected Members, through scrutiny commission meetings, briefings and or other meetings from time to time discussed many of the issues contained in the report. It was noted there was regular reporting and updates on Covid-19. It was noted that all Members had taken a keen interest, debated, challenged all aspects of risks put before them.

The HoIAS said it was interesting to hear as in terms of gathering information for an opinion, information on those sorts of events mentioned, minutes of meetings, presentations etc, all added to the compendium of assurance for the year.

The Chair thanked the HoIAS for the plan.

RESOLVED:

1. That the Audit and Risk Committee receive and approve the Internal Audit Annual Plan for 2021-22.

86. PRIVATE SESSION

RESOLVED:

That the press and public be excluded during consideration of the following report, in accordance with the provisions of Section 100A(4) of the Local Government Act 1972, as amended, because it involved the likely disclosure of "exempt" information,

as defined in the Paragraph detailed below of Part 1 of Schedule 12A of the Act, and taking all circumstances into account, it was considered that the public interest in maintaining the information as exempt outweighed the public interest in disclosing the information.

Paragraph 3

Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Appendix B1 – Progress Against Internal Audit Plans and a Brief Update on the Redmond Review

Appendix B2 – Housing Benefit and Council tax Support Verification Framework 2021.

87. PROGRESS AGAINST INTERNAL AUDIT PLANS AND A BRIEF UPDATE ON THE REDMOND REVIEW

The Head of Internal Audit Service (HoIAS) submitted a report for noting to the Audit and Risk Committee which provided a summary of progress against the 2019-20 and 2020-21 Internal Audit Plans, information on resources used to progress the plans, summary information on high importance recommendations and progress with implementing them. In addition, a brief update on the Government's response following the Redmond Review was given.

Bharat Mistry, Internal Audit, presented the report, outlined the main headlines and provided an overview of audit work planned, completed and postponed. The following points were noted:

- The Internal Audit Service had continued to operate remotely throughout the financial year. Though the pandemic had made it a challenging year, every effort had been made to continue to provide an effective internal audit service to the Council to be able to provide an opinion on the adequacy and effectiveness of the Council's control environment at the end of the financial year.
- During the course of the year a number of audits had been added, mainly around Covid-related grant audits.
- An estimated 650 days would be delivered by Internal Audit by the end of the financial year but would revert to 800 days for 2021-22.
- Taking account of CIPFA guidance and making a number of changes to the Internal Audit Plan, the HoIAS advised there would be enough breadth of audits to form his opinion.

Members noted that there was one High Importance recommendation, which was an ongoing challenge and work in progress. A number of High Importance recommendations were also included in the report, and whilst it was acknowledged it had been a challenging year for all, the HoIAS was keen to close off as many as possible.

The Committee received an update on the Government's response to the Redmond Review recommendations on the effectiveness of local (external) audit and the transparency of local authority financial reporting, and a summary response from MHCLG was provided to Members. A further report would be brought to a future meeting of the Audit and Risk Committee.

The Chair thanked the officer for the report.

RESOLVED:

1. That the contents of the routine update report be noted.

88. HOUSING BENEFIT AND COUNCIL TAX SUPPORT VERIFICATION FRAMEWORK 2021

The Deputy Director of Finance submitted a report for noting to the Audit and Risk Committee which summarised the emergency evidential measures taken in response to the Covid-19 outbreak for Housing Benefit (HB) and Council Tax Support (CTS) new claims and changes of circumstance from 23 March 2020 and to outline the new Verification Framework (VF) Policy to take effect from 1 April 2021 in compliance with Government guidance in DWP Subsidy Circular 211/2011.

The Audit and Risk Committee were recommended to note the current Emergency Measures, the new Verification Framework, and make any observations as it saw fit to the Chief Operating Officer (the Section 151 Officer) prior to implementation.

James Rattenbury, Principal Policy Officer, Revenues & Customer Support, presented the report. Points made included:

- Prior to March 2020, Risk-Based Verification (RBV) software was used to determine appropriate evidence from customers. During the Covid-19 outbreak and closure of the Customer Services Centre, emergency evidential measures were used in line with government guidance utilising technology and other sources of reliable information as an alternative to directly provided original evidence.
- A new policy was devised based on transferrable elements of RBV and best practice established during Covid-19 and had been approved by the Section 151 Officer and would take effect from 1 April 2021.
- The new VF policy also offered additional alternate forms of evidence that might be considered acceptable, for example, screenshots of bank statements.

The Chair thanked the officer for the report.

RESOLVED:

1. That the Audit and Risk Committee note the current Emergency Measures and the new Verification Framework.

89. ANY OTHER URGENT BUSINESS

There being no other items of urgent business, the meeting closed at 19:10pm.

Audit & Risk Committee Terms of Reference

1. Constitution & Purpose

The Audit & Risk Committee is a key component of the Council's corporate governance framework. The Committee reports to the Council and its purpose is to provide those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes.

It fulfils the role of 'the Board' for the purposes of the Public Sector Internal Audit Standards.

The Terms of Reference of the Committee will comply with Part 4a of the Constitution unless explicitly detailed below.

2. Membership

The Committee shall consist of non-Executive Councillors, and a maximum of one Executive Member. The Chair will be a non-Executive Councillor. A quorum of at least three non-Executive Councillors will be required at all meetings.

The Committee must remain apolitical, displaying unbiased attitudes, treating auditors, officers, the executive and management equally.

3. Attendance by officers

The Director of Finance (S151) or their nominated officer(s) and the designated Head of Internal Audit Service shall normally attend meetings. There is a standing invitation to the Council's appointed External Auditor to attend all meetings.

Other officers who will attend as required, including at the request of the Chair.

4. Frequency of meetings and agendas

Meetings shall be held not less than four times a year.

5. Duties

The duties of the Committee shall be as set out in the annexed schedule to these Terms of Reference.

To support and assist Committee members undertaking their duties and extending their knowledge, regular briefings or training will be provided by officers.

6. Authority

The Committee has the responsibilities detailed in Annex 1. The Committee is authorised by the Council to investigate any activity within its terms of reference.

It is authorised to seek any information it requires from any officer and all officers are directed to co-operate with any request made by the Committee. The Chair

will advise the Chief Operating Officer as the Head of Paid Service if it has exercised this authority to seek information (other than routine information) from any officer, setting out the information required and the circumstances underlying the request.

The Committee is authorised by the Council, if considered necessary, to secure the attendance of third parties with relevant experience and expertise provided that the Chair notify the Chief Operating Officer as the Head of Paid Service before any fees for such attendance are agreed.

7. Accountability

The Committee will undertake an annual review of its effectiveness (including where it has added value and supported improvement).

The outcome of this annual review and the Committee's activity will be reported to the Council each year.

Duties of the Audit & Risk Committee

1. Audit Framework

1.1 Internal Audit

- To fulfil the role of 'the Board' for the purposes of the Public Sector Internal Audit Standards (the PSIAS).
- To review and approve: -
 - The Internal Audit Charter which defines the purpose of the internal audit function.
 - The risk-based internal audit plan, including resource requirements.
 - The Head of Internal Audit Service's annual report containing an opinion on the overall adequacy and effectiveness of the Council's control environment, and conformance to the PSIAS.
- To receive regular reports on progress against the internal audit plan, containing activity undertaken, summaries of key findings, issues of concern and action in hand.
- To review conformance to the principles of the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations, and to support any improvements required.
- To contribute to and support an external quality assessment of the internal audit function which is a requirement of PSIAS to take place at least once every five years.
- To review any proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

1.2 External Audit

- To consider, comment upon and note the arrangements chosen by the Council to select and appoint its statutory external auditor.
- To review the External Auditor's disclosure of independence and objectivity. To satisfy itself that no issues with compliance with ethical standards or problems with audit quality have been raised.
- To consider and note the annual audit fees letter and the assumptions supporting the fees.
- To consider the scope and depth of all external audit plans, reports and audit risk assessments.
- To consider the External Auditor's ISA 260 Report to 'Those Charged with Governance'. This contains: -
 - key findings arising from the audit of the Council's financial statements;

- the Auditor's assessment of the Council's arrangements to secure value for money (VFM) in its use of resources; and
- the requirement for members of the Committee to authorise the Director of Finance to sign the letter of representation to the External Auditor from the Council in connection with the audit of the Council's financial statements.
- To note the External Auditor's annual report on the claims and returns certified for the Council.
- To ensure that non-audit work by the External Auditor is in accordance with the Council's *Policy for Engagement of External Auditors for Non-Audit Work* and report any such instances to the Council.

2. Counter Fraud and Investigations

- To review and approve, on a triennial basis (unless significant changes in legislation or circumstances dictate otherwise), the Council's policy and procedures for: -
 - i. Anti-Fraud (including Bribery and Corruption)
 - ii. Disclosure (whistleblowing)
- To note the outcomes of any review of the Council's conformance to the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.
- To receive and note reports on the performance of the counter fraud function and outcomes from the Council's participation in the National Fraud Initiative (NFI).
- To consider regular reports on the Council's application of the Regulation of Investigatory Powers Act (RIPA) and the outcomes of any inspections and approve the adoption of any related policies.

3. Statutory Financial Reporting

- To review and approve the annual statutory statement of accounts and the annual Letter of Representation on behalf of the Council.
- To bring to the attention of the Council any concerns arising from the financial statements or from the audit.
- To receive periodic reports providing updates on accounting and financial developments.

4. Risk Management and Insurance

- To review and challenge the adequacy and effectiveness of the Council's overall risk management framework, specifically to: -
 - i. Consider and approve, on an annual basis, the Council's Corporate Risk Management Policy Statement & Strategy.

- ii. Consider and approve, on an annual basis, the Council's Corporate Business Continuity Management Policy Statement and Strategy, ensuring it is compliant with the statutory duties required by the Civil Contingencies Act 2004 and continues to align to international and national standards and good practice guidelines.
- iii. Review reports in respect of the status of key current and emerging risks and internal controls relating to those risks, including the Operational and Strategic Risk Registers) and partnerships with other organisations.
- iv. Receive and note the annual report on the Council's insurance arrangements and its claims performance.

5. Governance and Assurance Frameworks

- To satisfy itself that the Council's assurance statement including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the Council's objectives. The Committee's responsibilities are to: -
 - i. Review the adequacy of the Council's assurance framework through the annual review of its system of internal control.
 - ii. Review and approve the Council's Local Code of Corporate Governance prepared in accordance with the CIPFA/SOLACE Good Governance Framework and the statutory requirement for producing an Annual Governance Statement.
 - iii. Note any reports providing updates on assurance, risk or governance related developments

6. Complaints

- To consider an annual report on complaints, including the Local Government and Social Care Ombudsman's annual review letter and recommendation.
- To consider and decide on appropriate actions relating to the Council's compliance with its own and other published or regulatory policies, Acts, standards and controls.
- To consider ad-hoc LGSCO reports.

7. Procurement

- To receive and note the annual report setting out the Council's performance against the Procurement Plan and compliance with the Contract Procedure Rules (including data on waivers).

- To consider any proposals for changes to the Rules to be made to Full Council and to review any changes to the Rules made by the City Barrister or any changes to thresholds.
- To seek assurance that the Council has appropriate arrangements to identify and manage risks, ensure good governance and obtain assurance on compliance in its procurement activity.

8. Other Matters

- To consider, approve or make recommendations in respect of any other matters referred to it by the City Mayor, Chief Operating Officer (as the Head of Paid Service) or a Director or any Council body.
- To consider any relevant matters reserved for Member-level decision as detailed in Rules of Procedure.



WARDS AFFECTED: ALL

Audit and Risk Committee

21st July 2021

**Regulation of Investigatory Powers Act 2000
Bi-Annual Performance Report January 2021 - June 2021**

Report of the City Barrister and Head of Standards

1. Purpose of the Report

The report advises on the performance of the Council in authorising Regulatory Investigation Powers Act (RIPA) applications from 1st January 2021 to 30th June 2021.

2. Summary

2.1 The Council applied for 0 Directed Surveillance Authorisation and 0 Communications Data Authorisations in the period above.

3. Recommendations

The Committee is recommended to:

3.1 Receive the Report and note its contents.

3.2 Make any recommendations or comments it sees fit either to the Executive or to the City Barrister and Head of Standards.

4 Report

4.1 The Council has applied for 0 Directed Surveillance Authorisation and 0 Communications Data Authorisations in the first half of 2021.

5. Financial, Legal Implications

5.1 Financial Implications

There are no financial implications arising directly from this report, although the Council could incur legal costs should procedures not be correctly followed – Colin Sharpe (Deputy Director of Finance) ext. 37 4081.

5.2 Legal Implications

There are no legal implications arising directly from this report, although the Council could incur legal costs should procedures not be correctly followed – Kamal Adatia (City Barrister and Head of Standards) ext. 37 1402.

6. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph References Within Supporting Information
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Climate Change	No	
Crime and Disorder	No	
Human Rights Act	Yes	HRA Article 8 must be considered for all applications
Elderly/People on Low Income	No	
Risk Management	No	

7. Report Author / Officer to contact:

Lynn Wyeth, Head of Information Governance & Risk, Legal Services
- Ext 37 1291

30th June 2021

National Fraud Initiative 2021/2022 update Report

Audit and Risk Committee

Date of meeting: 21st July 2021

Lead director: Colin Sharpe

Useful information

- Ward(s) affected: All Wards
- Report author: Stuart Limb (Corporate Investigation Manager)
- Author contact details: (0116) 454 2615 / 37 2615 stuart.limb@leicester.gov.uk
- Report version number: Version 1

1. Summary

- 1.1 The purpose of this report is to provide information to the Audit and Risk Committee on the National Fraud Initiative (NFI) exercises currently underway.

2. Recommended actions/decision

The Audit and Risk Committee is recommended to:

- a) Receive and comment on the report
- b) Make any recommendations it sees fit to the Executive and/or the Chief Operating Officer/s151 officer or Deputy Director of Finance.

3. Background

- 3.1 There are two separate NFI exercises in which the Authority participates. One involves data matching with external organisations, including other councils and the second involves matching data held within the Council.
- 3.2 Data for the 2020/21 external NFI exercise was submitted to the Cabinet Office in October 2020 and data was available for checking from 29th January 2021.

4. Detailed report

- 4.1 The Council has participated in the National Fraud Initiative since it was introduced in 1996. The exercise has evolved over the years and is now web based and managed by the Cabinet Office. The project involves electronically matching data from a number of sources in order to identify possible fraud or irregularity.
- 4.2 The Cabinet Office identifies matches and allocates a risk score from 100% on a decreasing order. Officers are expected to examine the high risk first on a descending basis. There is no requirement to examine all of the remaining matches and officers are encouraged to select a sample where there are large volumes of data for checking.
- 4.3 Examples of the different matches include:
- Housing Benefit claimants who are not entitled to claim because they are in receipt

of Student Loans.

- Housing Benefit Claimants who are tenants at a different address.
- Blue Badge Parking Permits, Concessionary Travel passes and Private Residential Care
- Home residents where the individual is recorded as deceased on the Disclosure of Death Registration Information (DDRI) or Department for Work and Pensions (DWP) list of deceased persons
- Duplicate creditors or duplicate payments to creditors
- Housing Benefit claimants who also appear on a local authority payroll
- Council Tax Reduction Scheme to payroll

4.4 All benefit fraud is investigated by the DWP, however the Cabinet Office still require the authority to undertake an initial check of the Housing Benefit claims before passing the matches to the DWP to investigate.

4.5 Work on the 2020-21 matches has commenced. Nearly 3,000 matches have been checked to date, with no issues identified following investigation, as summarised in the table:

Matches undertaken by 23rd June 2021

Total Matches	Matches Checked	Errors Identified	Frauds Identified	Overpayments Identified
14,698	5,134	2	Nil	£60,390

7. Financial, legal, equalities, climate emergency and other implications

7.1 Financial implications

Fraud can cause the Council significant loss; hence activity to prevent and detect fraud is a clear financial investment and a key component of good financial control and governance.

Colin Sharpe
Deputy Director of Finance

7.2 Legal implications

Fraud is a criminal offence and therefore represents breach of the law. Other forms of financial irregularity, though not criminal, may be in breach of regulation. The conduct of counter-fraud work of all kinds is bound by law and regulation and the Council is careful to ensure that its activities in this area are properly discharged.

Kamal Adatia
City Barrister & Head of Standards

7.3 Equalities implications

The report provides an update on the National Fraud Initiative (NFI) exercises currently underway.

There are no significant equality and diversity implications arising from the report.

Surinder Singh, Equalities Officer

7.4 Climate Emergency implications

This report does not contain any significant climate emergency implications.

7.5 Other implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

OTHER IMPLICATIONS	YES/NO	Paragraph references within the report
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Crime and Disorder	Yes	Whole report
Human Rights Act	No	
Elderly/People on Low Income	No	
Corporate Parenting	No	
Health Inequalities Impact	No	
Risk Management	Yes	This report is concerned with the prevention, detection and sanctioning of fraud. Fraud is one of the risks faced by the Council

8. Background information and other papers:

None – Information on the National Fraud Initiative is available at <https://www.gov.uk/government/collections/national-fraud-initiative>

9. Is this a private report (If so, please indicate the reasons and state why it is not in the public interest to be dealt with publicly)?

No

10. Is this a “key decision”?

No

Counter Fraud Report 2020

Audit and Risk Committee

Date of meeting: 21st July 2021

Lead director: Colin Sharpe

Useful information

- Ward(s) affected: All Wards
- Report author: Stuart Limb (Corporate Investigation Manager)
- Author contact details: (0116) 454 2615 / 37 2615 stuart.limb@leicester.gov.uk
- Report version number: Version 1

1. Summary

- 1.1 The purpose of this report is to provide information to the Audit and Risk Committee on the work carried out by the Corporate Investigations Team for the period 1 April 2020 to 31st March 2021.

2. Recommended actions/decision

The Audit and Risk Committee is recommended to:

- a) Receive and comment on the report
- b) Make any recommendations it sees fit to the Executive and/or the Chief Operating Officer/s151 officer or Deputy Director of Finance.

3. Background

- 3.1 This report includes statistical information on fraud cases identified, referred and, where appropriate, investigated by the Corporate Investigations Team.
- 3.2 As part of its work, the Corporate Investigations Team investigates suspected financial irregularities and makes recommendations to reduce the risk of further losses and improve performance, efficiency, effectiveness and economy in the use of resources by the Council.
- 3.3 The work focus during the financial year had to be redirected to provide counter fraud measures associated with the delivery of the Government's support schemes for local businesses as a result of national and local lockdowns during the coronavirus pandemic.

4. Detailed report

- 4.1 During the period covered by this report the Corporate Investigations Team (CIT) have been primarily focused on reactive work resulting from the Coronavirus and associated support schemes. In particular, grants of over £140m have been issued by Leicester City Council to local businesses affected by the national and local lockdowns, implementing a succession of Government funded support schemes.
- 4.2 More than 15,400 applications were received from over 7,000 businesses for financial support. As part of these schemes, the authority devised and implemented

a thorough application process which required documentary evidence to be provided before payments were made.

- 4.3 The bank statements provided as part of the process were verified via the services of a credit reference agency. This allowed an independent check to confirm the validity of the bank account and ownership of the accounts to minimise the risk of losses to fraud. In addition, further verification checks were carried out by utilising the Spotlight tool which was hosted by the Cabinet Office. This IT application confirmed the current trading status and holds the details of the support claimed by the businesses.
- 4.4 As a result of the preventative measures put in place and post payment validation checks to date, suspected criminal investigations into Business Support Grants have been kept to a minimum.
- 4.5 The authority also benefitted from membership of the National Anti-Fraud Network (NAFN), which alerted members to phishing emails purporting to be from legitimate business owners which were attempting to obtain unique business account reference numbers. Had these numbers been released this would have assisted the perpetrators to submit false applications. All these requests were refused, and no payments were made.
- 4.6 The team also supported the business grant account fund reconciliations and leads the on-going post payment assurance process required by the Government.
- 4.7 The CIT continues to work across the authority to reduce the risk of loss and fraud; this is a collaborative approach for example verifying Right to Buy (RTB) applications for council homes. All RTBs are subject to background checks and where irregularities or concerns are raised the issues are addressed by Legal Services, the RTB team and corporate investigations. This not only identifies irregularities but provides a higher level of assurance for sales to tenants.
- 4.8 The Corporate Investigations Manager considers management requests for access to employees' emails, Internet access, computers and the building access system (which gives staff access to council buildings) information before they are authorised by the Director of Finance. The majority of requests were for information from more than one system and some requests were for information relating to a number of users.
- 4.9 For 2020/2021 the combined loss avoidance and income generated savings is £959,000.

5 The Year Ahead

5.1 Major objectives for the Corporate Investigations Team for 2021-22 are:

- To support the Council in its efforts to deal with fraud and irregularity whether internally or externally focussed against the Council.
- To continue to investigate and prosecute, where appropriate, fraud offences and fully utilise the Proceeds of Crime Act to recover losses and ill-gotten gains.
- To support the Director of Finance by identifying high fraud risk areas and working with management to mitigate those risks.
- To manage the 2021/22 National Fraud Initiative exercise, ensuring that all data sets are considered and appropriate action taken where irregularities have occurred.
- To continue to work in conjunction with Housing Services to review the Authority's housing stock of approximately 22,000 properties in an effort to identify potential tenancy fraud.

6. Financial, legal, equalities, climate emergency and other implications

6.1 Financial implications

Fraud can cause the Council significant loss; hence activity to prevent and detect fraud is a clear financial investment and a key component of good financial control and governance. The activity supporting the covid business grants programme has been particularly significant.

Colin Sharpe
Deputy Director of Finance

6.2 Legal implications

Fraud is a criminal offence and therefore represents breach of the law. Other forms of financial irregularity, though not criminal, may be in breach of regulation. The conduct of counter-fraud work of all kinds is bound by law and regulation and the Council is careful to ensure that its activities in this area are properly discharged.

Kamal Adatia
City Barrister & Head of Standards

6.3 Equalities implications

The report provides an annual update to the Audit and Risk committee on the work carried out by the Corporate Investigations Team.

There are no significant equality and diversity implications arising from the report.

Surinder Singh, Equalities Officer

6.4 Climate Emergency implications

This report does not contain any significant climate emergency implications.

6.5 Other implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

7. Background information and other papers:

- Local Government Act 1972
- Leicester City Council's Anti-Fraud, Bribery and Corruption Policy
- Leicester City Council's Finance Procedure Rules
- Leicester City Council's Constitution
- Leicester City Council's Code of Conduct for Behaviour at Work
- Leicester City Council's Information Security Policy Statement
- Leicester City Council's Prosecutions Policy
- Leicester City Council's Investigators Code of Conduct

- Public Bodies Corrupt Practices Act 1889

- Chartered Institute of Public Finance & Accountancy (CIPFA) publication *Managing The Risk of Fraud*
- The Prevention of Social Housing Fraud Act 2013

8. Is this a private report (If so, please indicate the reasons and state why it is not in the public interest to be dealt with publicly)?

No

9. Is this a "key decision"?

No

Leicester City Council audit plan

Year ending 31 March 2021

35 Leicester City Council
July 2021



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Council developments and impact of Covid 19 pandemic

The Council continues to operate in an uncertain and challenging environment due to the global pandemic, balancing service delivery against the impact on local citizens, Council staff and their families. Covid has had, and will continue to have a significant financial impact on the Council. The Council has suffered loss of operational income, and has had to deal with the allocation, distribution and provision of emergency loans and grants at sometimes relatively short notice, while continuing to provide “business as usual” services such as housing, social care, education and waste collection and recycling.

It was recognised by the Council in last year’s Narrative Report that the direct financial impact on 2019-20 was limited: the Council’s valuer reported a material uncertainty in regards to the valuation of properties as at 31 March 2020 due to the Covid 19 pandemic. Funding levels beyond 2021/22 are particularly uncertain, with the Government’s planned funding review and significant unknowns around future funding for social care services. While the budget for 2012-22 is in balance with the use of general reserves, the budget gaps for 2022/23 and 2023/24 are £39.4m and £60.4m respectively. The Council will need to maintain focus on delivering its budget, and be agile in the face of any continuing impacts of the pandemic.

Financial Reporting and Audit

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The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing. There is a particular focus on estimates in 2020/21 with the introduction of ISA 540 (revised) (see pages 12 and 13 for more detail), and the Council should anticipate greater challenge and audit scrutiny in these areas.

Accounting for grants

The Government has provided a range of financial support packages throughout the COVID-19 pandemic. These include additional funding to support the cost of services or offset other income losses and also grant packages to be paid out to support local businesses. There is nothing new about the accounting treatment for grants, but the Council needs to consider the nature and terms of the various COVID-19 measures in order to determine whether there is income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement (CIES) in 2020/21. There are three main considerations:

- 1) Where the funding is to be transferred to other parties, is the Council acting as the principal or as the agent?
- 2) Are there grant conditions outstanding?
- 3) Is the grant a specific or non-specific grant?

We have shared our publication on grant funding considerations with the Council and discussed it with the finance team who have considered the above factors in their rationale and justification for the accounting treatment to be proposed. It is an evolving area that we will need to react to as the audit progresses.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Deputy Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- There were recommendations made in respect of previous audit work, which can be found in our Audit Findings Report for the year ended 31 March 2020 both in relation to the financial statements as well as in respect of work on arrangements to secure VFM. We will further follow up on these recommendations as part of our work for this year – also see pages 13 and 14.
- We will continue to provide you with sector updates via our Audit and Risk Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control, refer to page 8.
- The Council’s pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements due to the size of the numbers involved (£903 million in the balance sheet as at 31 March 2021) and the sensitivity of the estimate to changes in key assumptions. We identified a significant risk in regards to the valuation of the pension fund net liability – refer to page 6.
- The Council’s valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid 19 pandemic. Whilst we anticipate markets will have returned to a degree of normality significant uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of properties – refer to page 7.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of the Leicester City Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Risk Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Risk Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- presumed risk of management override of controls
- the valuation of property, plant and equipment (including council dwellings)
- the valuation of the pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £15.25m (PY £16.5m) for the Council, which equates to approximately 1.46% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £762k (PY £800k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risk of significant weakness. This is not to say a significant weakness in arrangements actually exists but this is an area of focus of our work requiring audit consideration and procedures to gain assurance that proper arrangements are in place at Council:

- financial sustainability

Our planning is an iterative process and if further risks are identified, they will be reported upon in the Auditor's Annual Report.

Audit logistics

Our planning and interim "visits" took place remotely throughout January to April and our final visit is in progress, having commenced in mid-June. It is anticipated that this is likely to be remote to some extent though we have discussed the logistics of coming out on site to discuss issues face to face with officers (ensuring all social distancing guidance is adhered to where applicable) as required. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our audit fee is currently under discussion with our regulators. The final fee for the audit in 2019/20 was £150,167 inclusive of variations subject to PSAA approval. We anticipate that this will be uplifted to £173,734 in 2020/21, as a result of additional Value for Money requirements, changes to auditing standards in relation to estimates and operational challenges stemming from remote working conditions during the pandemic. See pages 19 and 20 for further analysis of the proposed fee.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

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Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Risk of fraud in revenue recognition and expenditure	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of local authorities, including Leicester City and its subsidiaries mean that all forms of fraud are seen as unacceptable. <p>Whilst not a presumed significant risk, we have had regard to Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure may well be greater than that of income. Because of this we have also considered and rebutted the risk of improper recognition of operating expenditure</p>	<p>Notwithstanding that we have rebutted this risk, we will still undertake a significant level of work on the Council's revenue streams, as they are material. We will:</p> <p><u>Accounting policies and systems</u></p> <ul style="list-style-type: none"> evaluate the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code update our understanding of the Council's business processes associated with accounting for income <p><u>Fees, charges and other service income</u></p> <ul style="list-style-type: none"> agree, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. <p><u>Taxation and non-specific grant income</u></p> <ul style="list-style-type: none"> income for national non-domestic rates and council tax is predicable and therefore we will conduct substantive analytical procedures for other grants we will sample test items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. <p>We will also design tests to address the risk that income has been understated, by not being recognised in the current financial year.</p> <p><u>Expenditure</u></p> <ul style="list-style-type: none"> update our understanding of the Council's business processes associated with accounting for expenditure agree, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence <p>We will also design tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year.</p>

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test high risk unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. We will utilise Grant Thornton's diagnostic IT system, Inflo, as part of these considerations.
Valuation of net pension fund liability	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£903m at 31 March 2021 in the draft accounts) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of the Leicestershire County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Significant risks identified

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Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (including council dwellings)	<p>Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. The Council revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£2.2bn at 31 March 2021 in the draft accounts) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We have therefore identified the valuation of land and buildings revaluations and impairments as a risk of special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the evaluation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. <p>As a consequence of the pandemic, whereby the valuer may not have physically observed the assets we will consider how the valuer is assessing for impairment and/or obsolescence in the absence of a physical inspection</p> <p><u>Prior year considerations</u></p> <p>A significant amount of work was undertaken as part of our audit challenge involving a significant amount of time and effort both on our part as well as on the part of the Council's estates team, finance team and valuer, which resulted in four recommendations being made in our 2019-20 Audit Findings Report. We can see from our work to date that the Council has undertaken an increased amount of its own quality assurance processes for this year including challenging the valuations as they are received by identifying any unusual year on year movements in order that they are able to understand the reasons for any variances.</p>

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Operating Expenses	<p>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses.</p> <p>Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.</p> <p>We are also applying specific focus to the occurrence of expenditure and existence of payables, to mitigate the risk that expenditure has been incorrectly recognised in order to seek to take advantage of the additional funding which has been available to the Council during the 2020/21 financial year.</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness • gain an understanding of the Council's system for accounting for non-pay expenditure • apply elevated risk procedures and test a sample of balances included within trade and other payables • test a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period • test a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period.

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We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

43 The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

We identified recommendations in our 2019/20 audit in relation to the Council's estimation process for valuation of land and buildings, which have been discussed on page 7.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Risk Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures



Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

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- How management understands the degree of estimation uncertainty related to each accounting estimate; and
 - How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have requested management to provide information as to how estimates are drawn up, above and beyond what is documented in the “informing the audit risk assessment”, which was presented to the Audit and Risk Committee at its last meeting in March. In order to assist the Committee with its understanding, discussions are being held as part of the July meeting to ensure that members have a sufficient understanding of the estimated used.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council’s website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 17).

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the Council's financial statements, which resulted in 7 recommendations being reported in our 2019/20 Audit Findings Report. We have followed up on the implementation of our recommendations as noted below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Valuation Linked Recommendations		
In progress	Valuation Process A number of errors were identified in relation to the Council's valuation process, across a variety of areas such as asset lives, typographical errors in valuation certificates and discrepancies in the valuation list and the fixed asset registered in terms of which valuations were processed. We recommend that the Council applies its own quality assurance processes on the valuations for future years such that any errors are identified and resolved prior to the audit process.	We are aware from discussions with the finance team that challenge and enhanced scrutiny has been undertaken as part of the valuation process. However, we will keep this recommendation open until such time as we have completed our audit work in this area, and concluded on whether this recommendation has been acted upon.
In progress	Additions to Council Dwellings The valuation report for Council dwellings did not reflect Council Dwelling Asset additions made during the year. The Council attributed their own value to these properties, effectively including them at historic cost (using the purchase price) as a proxy for fair value. Our expectation is that the value of Council Dwellings recognised on the Balance Sheet is consistent with the valuation as reported by the Council's external valuer and should include the full housing stock as at the balance sheet date, i.e. including any additions purchased in year. We recommended that in future the Council seek to inform its valuers of any such changes in year to the housing stock to determine the impact of any on the valuation of Council Dwellings as at the balance sheet date.	We will keep this recommendation open until such time as we have completed our audit work in this area, and concluded on whether this recommendation has been acted upon.
In progress	Internal valuer's terms of engagement Our auditor's valuers advised us that from their review of the instructions provided that in respect of the internal valuer, whilst it may be that the Valuer has not issued the formal terms of engagement document in the past it is an area which has been under closer scrutiny in recent years by the RICS. They conclude that it is just as, or even more important, for an Internal Valuer to issue this document as there are additional areas within the legislation for terms of engagement which are specifically aimed at internal valuers (in relation to objectivity etc). Therefore, they recommended that within the instruction the client should ask for this document to be completed. This was duly produced but noted here so that this is considered as part of the arrangements going forward and an agreement drawn up as part of the process for future year-ends.	We will keep this recommendation open until such time as we have completed our audit work in this area, and concluded on whether this recommendation has been acted upon.
Complete	Differences between carrying value and current value In our initial review of the financial statements in 2019/20 we identified that there was £27.4m of other land and buildings that were not subject to revaluation as at 31 March 2020 and therefore we challenged the Council how it had satisfied itself that carrying value as at the balance sheet date is not materially different to its fair value. We recommended that the Council enhance its closedown process to include consideration of the carrying value of any assets not valued to ensure carrying value is not materially different to current value.	We note from Note 15 draft 2020/21 financial statements that the value of land and buildings assets not subject to revaluation as at 31 March 2021 that could have been is only £76k. Indications are therefore that this recommendation has been acted upon, though note that Note 15 is in the process of being audited as at the time of writing.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Governance		
In progress	Declarations of interests We identified as part of our planning work in 2019/20 that there were a number of instances (albeit historic) of members not completing their declarations of interests. When we reviewed the related parties disclosures and compared them to companies house we identified some apparent discrepancies, which have been discussed with the Council, leading to interests in respect of three Councillors being updated. We recommend that all those who are required to declare interests are reminded of the need to update them on a real time basis.	While we did not identify any such recurrences as part of our 2020/21 planning work, we will keep this recommendation open until such time as we have concluded upon our work in this area for the financial statements
Value for Money and Other Areas		
In progress	Review of savings and ongoing monitoring Council policy as part of the managed reserves strategy has been not to remove savings from budgets until they have been achieved, such that savings are not built into budgets that are not subsequently not achieved. The Council is aware that there needs to be monitoring of progress of savings that need to be achieved through the spending reviews.	We will consider this as part of our 2020/21 work on value for money.
In progress	Fixed Penalty Notices As part of our audit we received information in respect of the Council's policies and operational procedures in respect of the issuing of Fixed Penalty Notices (FPNs) within the City Council's Wardens Services. We recommended that the Council reviews the suite of key performance indicators utilized in the Wardens Service to ensure that they fully meet the DEFRA Code of Practice on Litter and Refuse expectations in respect of performance being monitored and reported in terms of the impact the Council's actions are having in improving environmental cleanliness.	Update to be confirmed.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

49 We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £15.25m (PY £16.5m) for the Council, which equates to approximately 1.46% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £25k for senior officer remuneration owing to the sensitive nature of these disclosures.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

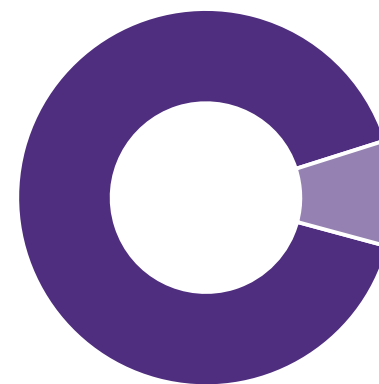
Matters we will report to the Audit and Risk Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Risk Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £762k (PY £800k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Risk Committee to assist it in fulfilling its governance responsibilities.

Prior year gross operating costs

£1,046m Council



■ Prior year gross operating costs

Materiality

£15.25m

Council financial statements materiality (PY: £16.5m)



£0.762m

Misstatements reported to the Audit and Risk Committee (PY: £0.800m)

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risk we have identified to date is set out below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

51 Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



Financial sustainability

The Authority has historically managed its finances well, but as noted in "Key Matters" on page 3 for several years the Council has been reporting significant medium-term financial challenges and this has been exacerbated by the pandemic: the Council has suffered loss of operational income, and has had to deal with the allocation, distribution and provision of emergency loans and grants at sometimes relatively short notice, while continuing to provide "business as usual" services such as social care and education.

Funding levels beyond 2021/22 are particularly uncertain, with the Government's planned funding review and significant unknowns around future funding for social care services. While the budget for 2012-22 is in balance with the use of general reserves, the budget gaps for 2022/23 and 2023/24 are £39.4m and £60.4m respectively.

The Council will need to maintain focus on delivering its budget, and be agile in the face of any continuing impacts of the pandemic.

We will review the Council's Medium Term Financial Statement and financial monitoring reports and assess the assumptions being used and savings being achieved.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



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Grant Patterson, Key Audit Partner

Grant will oversee the implementation and delivery of the audit and be the key contact for senior management and the Audit and Risk Committee. He will meet with the Council's senior management to help identify risks for the audit and provide advice and assistance as required.



Nic Coombe, Audit Manager

Nic will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. She will attend Audit and Risk Committees with Grant, and supervise Janette in leading the audit team. Nic will undertake reviews of the team's work and draft clear, concise and understandable reports.

Janette Scotchbrook, Assistant Manager

Janette will be responsible for the "on-site" audit team management and will be the day-to-day point of contact for the finance team. She will be responsible for ensuring the audit fieldwork is complete.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a body not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a body not meeting its obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for Leicester City Council to begin with effect from 2018/19. The scale fee for 2018/19 was set by PSAA at £112,884. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 16, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

53 The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee for the VFM element of the audit of £26,000. This is in line with increases we are proposing at all our local audits. Members may be aware that MHCLG is currently responding to the findings of the Redmond Review into local audit. As part of this, Government has recognised the need to provide additional funding to local authorities to support increases in audit fees.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf. It includes the increase in respect of VFM of £26,000 as well as additional fees due to increased audit requirements.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Leicester City Council Audit fees	£121,884	£150,167	£173,734

Assumptions

In setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA			£112,884
<i>Ongoing increases to scale fee first identified in 2019/20</i>			
Raising the bar/regulatory factors	£5,000		
Enhanced audit procedures for Property, Plant and Equipment	£4,350		
Property, Plant and Equipment: appointment of auditor's expert	£5,000		
Enhanced audit procedures for Pensions	£3,500		
Recurring element of 2019/20 fee			£17,850
<i>New issues for 2020/21</i>			
Additional work on Value for Money (VfM) under new NAO Code	£26,000		
Increased audit requirements of revised ISAs	£17,000		
Proposed increase to agreed recurring 2019/20 fee			£43,000
Total audit fees (excluding VAT)			£173,734

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Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

There is one matter to draw the Audit and Risk Committee's attention to. One member of the PSA Birmingham team has a close family member who works at the Council in the Highways Department. Having consulted with our Ethics team it would have been possible to put appropriate safeguards in place in order to mitigate any risks, had this individual been a part of the audit team. However, to avoid the perception of conflict we have determined to exclude the individual from the audit and confirm that they have not worked upon the audit.

We therefore confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

There are no non-audit related services identified.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Capital receipts grant	5,075*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of £173,734 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers Pension Return	5,550*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of £173,734 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit Claim	54,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of £173,734 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

* Note that these fees are those charged in respect of 2019-20 as the equivalent fees for 2020-21 are yet to be determined.

Appendix 1: Revised Auditing Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditing Standards and application guidance continued

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	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	✓
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix 1: Revised Auditing Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	✓
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓



Draft Statutory Statement of Accounts & Annual Governance Statement 2020/21

Decision to be taken by: N/A

Date of meeting: 21st July 2021

Lead director: Alison Greenhill

Useful information

- Ward(s) affected: All
- Report author: Amy Oliver & Ben Matthews
- Author contact details: amy.oliver@leicester.gov.uk & ben.matthews@leicester.gov.uk
- Report version number: 1.0

1. Summary

- 1.1. To provide an opportunity for the committee to consider the Council's Draft Annual Statement of Accounts and Annual Governance Statement for 2020/21 before they are brought back to committee for formal approval.

2. Recommendations

- 2.1. The committee is asked to consider the:
 - 2.1.1. Draft Annual Statement of Accounts for 2020/21 at appendix A.
 - 2.1.2. Draft Annual Governance Statement 2020/21 at appendix A.

3. Background

- 3.1. The Accounts & Audit (England) Regulations 2015 require that the Council present its audited Statement of Accounts along with its Annual Governance statement for approval annually by the 31st July. This is delegated to the Audit & Risk Committee by Council. For 2020/21, this deadline has been extended to the 30th September 2021 due to the COVID-19 pandemic. The draft accounts are therefore presented to this meeting for information and consideration, and will be brought to a future meeting for formal approval following the completion of the external audit.

4. Draft Annual Statement of Accounts for 2020/21

- 4.1. The statutory accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK. Separate management accounts are presented to the Executive and to the Overview Select Committee, which set out the revenue and capital outturn for the authority. The financial position of the authority is presented in a different way in the Statement of Accounts. The outturn reports focus on the in-year financial performance in a format consistent with the Council's budgets, while the Statement of Accounts shows the in-year performance in a standard format adopted by all local authorities, including a balance sheet showing the underlying financial position.
- 4.2. Despite the wide variations in the way the position is presented, the key point is that both the outturn reports and the accounts are consistent.

4.3. The core financial statements are:

4.3.1. Movement in Reserves Statement

This shows the movement in the year on the different reserves held by the authority. This statement distinguishes between “usable reserves” which can be used to fund expenditure or reduce local taxation and “unusable reserves” which are effectively accounting entries and not available to spend. The level of uncommitted general balances at 31st March 2021 was £15.0m, in line with the Council’s financial strategy.

4.3.2. Comprehensive Income and Expenditure Statement (CIES)

This shows the Council’s actual performance for the year in accordance with the Code of Practice. This means that the accounts are prepared on a different basis than that used to set the Council’s budget and raise council tax. There are a number of statutory adjustments that are made to the surplus or deficit shown on this statement to arrive at the balance on the General Fund shown in the Movement in Reserves Statement above.

4.3.3. Balance Sheet

The balance sheet shows the net worth of the Council in terms of its assets and liabilities. It shows the net value of the organisation including the balances and reserves, its long-term indebtedness, and its fixed and net current assets employed in its operations.

4.3.4. Cash Flow Statement

This statement summarises the movements in cash holdings during the year in common with the presentation required for commercial companies, although the statement is of less significance in the local authority context.

4.4. The Council’s Draft Statement of Accounts were published on the website on the 28th May 2021.

4.5. The external audit started on the 14th June. Any recommendations made will be reported to your committee, along with any alterations made to the draft Statement of Accounts.

4.6. Due to the Covid-19 pandemic the usual statutory deadlines have been extended and the final audited accounts are not required to be completed until the 30th September 2021.

4.7. When producing the Statement of Accounts, a number of accounting estimates are used. These estimates rely on the professional judgement of experts in the relevant areas. As these estimates are material to the accounts it is important that the committee understand them and the impact on the accounts. For the Council the main estimates are:

- Property, Plant & Equipment – remaining useful lives, asset values
- Pensions Liability
- Fair Value of loans

4.8. These estimates were included in the Informing the Risk document presented at committee on the 17th March 2021. Further detail on significant estimates in the accounts can be found in Note 5 (page 41) of the Statement of Accounts and at appendix B.

5. Draft Annual Governance Statement

5.1. The Council is required to publish, as part of its financial accounts reporting, an Annual Governance Statement. This statement should assure the people of Leicester that the Council operates in accordance with the law and has due regard to proper standards of behaviour and that it safeguards the public purse. The draft Annual Governance Statement is being presented here for comment before final approval by this committee.

5.2. The format of the Annual Governance Statement to a large extent is dictated by the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'.

6. Financial, legal, equalities, climate emergency and other implications

6.1 Financial implications

The report is exclusively concerned with financial issues.

6.2 Legal implications

There are no direct legal implications arising from the recommendations contained in this report.

Emma Jackman, Head of Law (Commercial, Property & Planning)

6.3 Equalities implications

There are no direct equality implications arising from the recommendations contained in this report.

Surinder Singh, Equalities Officer

6.4 Climate Emergency implications

6.5 Other implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

N/A

7. Other Implications

<u>OTHER IMPLICATIONS</u>	<u>YES/NO</u>	<u>PARAGRAPH REFERRED</u>
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Crime and Disorder	No	
Human Rights / People on low incomes	No	
Corporate Parenting	No	
Health Inequalities Impact	No	

8. Background papers:

Revenue and capital outturn reports presented to the Overview Select Committee on 27th May 2021.

Informing the audit risk assessment for Leicester City Council 2020/21 (March 2021) presented to the Audit and Risk Committee on 17th March 2021.

9. Summary of Appendices:

Appendix A – Draft Annual Statement of Accounts & Annual Governance Statement 2020/21
Appendix B – Estimates – Key Assumptions

10. Consultations

All departments are consulted during the Authority's close down period.

11. Is this a private report (If so, please indicate the reasons and state why it is not in the public interest to be dealt with publicly)?

12. Is this a “key decision”? If so, why? No

DRAFT ANNUAL ACCOUNTS

Leicester City Council

2020/21

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Introductory Statements

Narrative Statement

This report sets out to provide the context for the Council's financial statements and to demonstrate how the Council has achieved its desired objectives for 2020/21.

1. Introduction

Leicester City Council is a unitary authority in the East Midlands, consisting of 54 councillors, representing 22 wards in the city, overseen by a directly elected mayor.

The Council's responsibilities are wide-ranging and include services it is legally required to provide (e.g. adult social care and waste collection) as well as discretionary services such as parks, open spaces and leisure centres.

Leicester City Council employs more than 11,000 staff, who are responsible for delivering services to a diverse range of customers. Examples of the areas in which they work are below:

- Neighbourhood and Environmental Services
- Adult Social Care
- Children's Social Care
- Housing
- Public Health & Sports
- Roughly half the employees work within our schools.

2020/21 has of course been dominated by the Covid-19 pandemic. The most significant impacts on our finances have been additional costs in managing the impact of the pandemic locally; and losses of income due to closed facilities and reduced public movement. We have received substantial government grants and it is not believed that the pandemic will affect our financial viability. Further costs will be incurred (and grant received) in 2021/22 and the pandemic remains a significant risk.

Throughout 2020/21 the Council has supported local businesses, administering a significant scheme of grants and reliefs to affected businesses. The Council paid out £105.7m in grants where the authority was acting as an Agent and has therefore not recognised these in the accounts.

The vision of the Council is that we will operate with creativity and drive for the benefit of Leicester and its people. To achieve this, we have committed to five values:

- Be confident
- Be clear
- Be respectful
- Be fair
- Be accountable

The Mayor's vision for the Council is to enhance people's confidence and pride in our city, because when people feel proud about where they live they become part of it. The Mayor's key pledges in 2020/21 are:

- A Fair City
- Homes for All
- Connecting Leicester
- Sustainable Leicester
- Health & Care
- Lifelong Learning
- A City to Enjoy
- A Safe and Inclusive Leicester

These key pledges set the medium to the long – term strategies of the Council.

Some of the key outcomes from the Mayor's pledges in 2020/21 have been:

- Continuing significant infrastructure works to improve local transport routes through the City.
- The Council continues to manage its budget without crisis.
- Progress was made in relation to the Water-side Regeneration project.
- Continued investment in Council housing and the approval of significant investment in affordable housing going forward.
- The Council has worked with local business and residents to support them through the pandemic.

Narrative Statement

2. Financial Performance

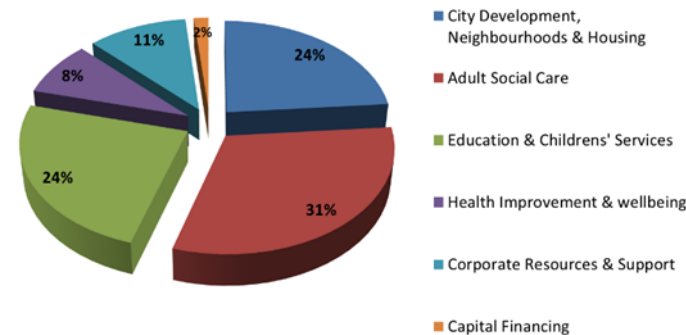
The budget for 2020/21 followed a decade of Government austerity. It was a one year budget, set in anticipation of more detailed spending plans from the Government for 2021/22 onwards. Shortly after the budget was agreed, a pandemic was declared, and the focus became on monitoring the financial impact. The outturn for 2020/21 was achieved without requiring any unbudgeted in-year cuts. Future planning has naturally been disrupted by the pandemic and we do not have Government plans for 2022/23. It is anticipated that future spending cuts will be required as the Government seeks to repair the damage done to national finances by the pandemic.

Net expenditure on provision of services was £331m in 2020/21 and £354m in 2019/20. The chart to the right sets out the spend by General Fund service area.

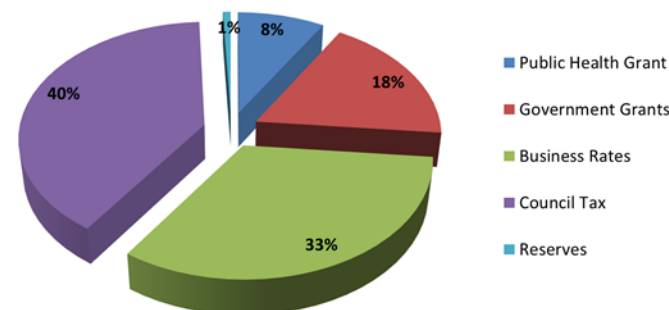
The services above are funded through various resources as demonstrated below.

The Expenditure and Funding Analysis at note 2 in the accounts shows the relationship between the outturn position above and what is reported in the Council's Comprehensive Income & Expenditure Statement.

2020/21 Spend by Category
(General Fund Net Spend)



2020/21 Sources of Funding
(General Fund)

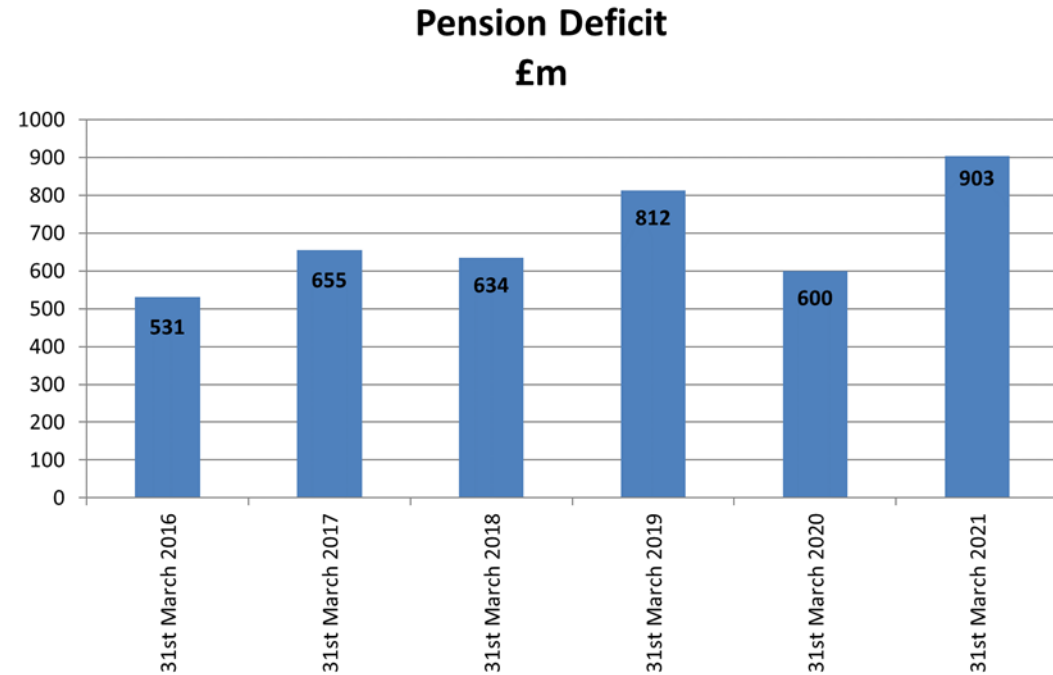


Narrative Statement

Pension Liabilities

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

Variations between the years will occur, principally due to changes in assumptions made by the scheme actuaries about the growth of future liabilities and rates of returns on the fund's investments. The graph to the right illustrates the volatility that can occur on a year-by-year basis because of these changes, and hence, the limited context in which annual movements should be viewed.

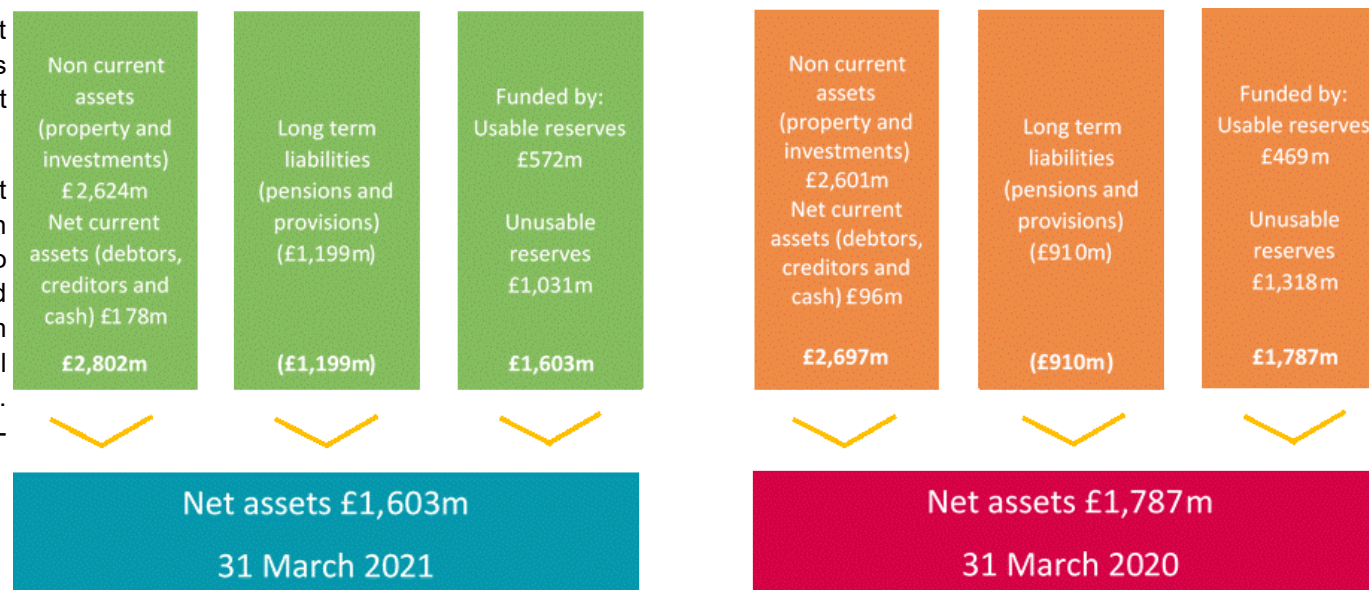


Narrative Statement

Net Assets

The Council maintains a strong balance sheet despite financial challenges, with net assets of £1,603m at 31st March 2021 (£1,787m at 31st March 2020).

Within the usable reserve balance as at 31st March 2021 are Government grants in relation to collection fund deficits. It's important to note they are intended to be discharged against the Collection Fund Deficit from 2021/22 and do not represent additional spending power taken forward in to 2021/22. They are currently held in an earmarked reserve (see note 10).



Cash Flow Management

Cash management differs from budget management in that cash balances do not represent sums which could be used to support the budget.

The Council's treasury strategy is based on utilising cash balances to fund capital expenditure without the need to borrow.

The pandemic affected our approach to cash management, with a strong focus on liquidity becoming essential. The position was strengthened by the early receipt of some government grants.

Cash & Cash equivalents at 31st March 2021 were £103m, £44m higher than the previous year, as a result of receiving many government grants ahead of need. A substantial portion of the Council's cash balances can only be used to repay debt, but this is seldom possible as Government rule changes made it prohibitively expensive to repay PWLB debt.

Narrative Statement

Capital

The Council has an ambitious capital programme aimed at regenerating the City, including:

- Neighbourhood works
- Council house improvements
- Additional school places
- Affordable Housing

Capital expenditure of £139m was incurred in 2020/21 compared to £120m in 2019/20. Details of the spending can be seen in the table.

The key projects within 2020/21 that are expected to continue during 2021/22 and beyond are Connecting Leicester scheme, redevelopment of Waterside, and creation of additional school places.

Capital Expenditure 2020/21		
Category	£m	Spending includes;
Planning, Development & Transport	50.4	Leicester North West Major Transport Scheme, Connecting Leicester, Waterside Strategic Regeneration area, Pioneer Park Commercial Workspace, Ashton Green
Housing Revenue Account	41.4	Affordable Housing Acquisitions, Council House Improvements; including environment and communal
Schools	25.9	Schools' maintenance, additional Primary, Secondary and Send places
Tourism, Culture & Inward Investment	2.5	Jewry Wall Museum, Leicester Market redevelopment & Growth Hub
Estates & Building Services	6.4	Haymarket House, Property and Operational Estate Maintenance
Neighbourhood & Environmental Services	4.4	Waste vehicles, St Mary's Allotment improvements, Parks & Open Spaces
Housing General Fund	4.2	Disabled facilities grant, Vehicle Fleet Replacement Programme
Other	3.9	Children's Homes, ICT investment & Public Health capital schemes
TOTAL	139.1	

Narrative Statement

Leicester and Leicestershire Enterprise Partnership (LLEP)

The Council is the accountable body for LLEP Limited. The LLEP is a strategic body made up of local government and business leaders as well as senior education and third sector representatives. The LLEP's remit is to drive forward regeneration and growth of the local economy, by:

- Working with Government to set out key investment priorities for Leicester & Leicestershire
- Engaging with business, local authorities, Higher Education, Further Education, the voluntary sector and other stakeholders
- Facilitating local partnership working and relations with national Government
- Influencing national Government economic policy and spending
- Investing LLEP funding and aligning partner resources
- Through its investments, influence and activities ensure positive outcomes for the local economy

As the accountable body for the LLEP the Council looks after the body's finances. As at the 31st March 2021 the Council was holding £18.2m of the LLEP's balances, this is shown as a creditor in the balance sheet. The LLEP'S income and expenditure is not included in the core statements of the Council.

The table below shows the total operating income & expenditure for the LLEP during 2020/21.

	20/21 £000's
Income	
Grants	640
Contributions	250
National and Local Programme Income	1,422
Fees, Interest and Other Income	511
	<u>2,823</u>
Expenditure	
Staffing	929
Running Costs	332
Accountable Body Costs	182
Programme Delivery	1,307
	<u>2,750</u>
Net Surplus / (Deficit)	<u>73</u>

The LLEP is also responsible for administering the surplus for the Leicester & Leicestershire Business Rates Pool.

Narrative Statement

3. Governance

Details regarding the Council's governance arrangements can be found in the Annual Governance Statement (page 151) along with the significant risks facing the authority.

4. Looking Ahead

The Council has set a balanced budget for 2021/22. Further detail on the Council's long-term strategy can be found in the budget report;

<http://www.cabinet.leicester.gov.uk:8071/documents/s117029/General%20Revenue%20Budget%202021-22.pdf>

The future outlook is going to be heavily contingent on the long-term consequences of the pandemic and the Government's response (including any new expectations placed on the Council to be ready for any future pandemic). The Government's proposed changes to local government finance, including a review of how funding is allocated, will no longer take place in 2021/22. We do not know the extent to which any fundamental changes to the cost bases of local authorities will be met by Government grant.

It is anticipated that the Government will make spending cuts in order to rebalance the economy, and the Council therefore needs to plan accordingly. Government spending plans for 2022/23 and beyond will not be published until the Comprehensive Spending Review in autumn 2021.

Further detail on the risks facing the Council can be found in the Annual Governance Statement.

5. Conclusion

The Council expects to operate within a reducing revenue budget envelope for the immediate future. With continuing demographic and needs led pressures, managing within its means whilst providing good quality services will remain the primary challenge to the Council.

The Council will need to continue to work to ensure that it uses its cash and fixed asset resources in the most efficient and effective way possible. This will be important in maximising available resources whilst operating with prudent financial disciplines.

Further details on the Council's organisational structure, corporate plans and strategic issues can be found in the Annual Governance Statement.

Narrative Statement

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

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2021. It comprises core and supplementary statements, together with disclosure notes. The format and content of the financial statements are prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. This is based on International Financial Reporting Standards adopted for use in the public sector context.

The Core Statements are:

- The **Comprehensive Income and Expenditure Statement (CIES)** – this shows the net cost of providing services. This statement is prepared on the accounting basis. The Expenditure and Funding Analysis compares the CIES with the level of income and expenditure which are taken into account when setting the annual budget and council tax, since certain amounts are disregarded under statute.
- The **Movement in Reserves Statement** is a summary of the changes in the Council's reserves over the course of the year. Reserves are divided into usable reserves which can be used to fund future expenditure and unusable reserves which are maintained to meet statutory responsibilities.

- The **Balance Sheet** shows the Council's assets and liabilities at the year end. Net assets are matched by reserves which may be usable or unusable.
- The **Cash Flow Statement** shows the changes in cash and cash equivalents during the year and explains the reasons.

The Supplementary Financial Statements are:

- The **Annual Governance Statement** which provides an overview of the Council's key governance arrangements. Along with updating readers on the conclusions of the annual review, including any changes and improvements that are being made.
- The **Housing Revenue Account** is a statutory ringfenced account relating to the provision of rented social housing.
- The **Collection Fund** which records all income and expenditure in relation to council tax and business rates and the redistribution to precepting authorities.

The notes to these financial statements provide more detail about the Council's accounting policies and individual transactions.

Group Accounts Preparation:

The Council has not identified any subsidiaries, associated companies or joint ventures in which it has material interest and therefore is not required to prepare group accounts.

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 are not yet approved by the Audit Committee

Signed:

Chair of Audit and Risk Committee:

Date:

Statement of Responsibilities for the Statement of Accounts (continued)

The Director of Finance's Responsibilities

The Director of Finance 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 Director of Finance 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 31st March 2021.

Signed:



Alison Greenhill CPFA, Chief Operating Officer Date: 27/05/21

Independent Auditor's Report to the Members of Leicester City Council

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Core Financial Statements

Comprehensive Income and Expenditure Statement

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 shows a deficit in 2020/21 of £184m.

Total comprehensive income and expenditure 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 and gains on revaluation of property assets.

2019/20			2020/21			
Gross Exp	Income	Net Exp		Gross Exp	Income	Net Exp
£000	£000	£000	Note	£000	£000	£000
192,326	(65,792)	126,534	City Development & Neighbourhoods	175,402	(52,696)	122,706
83,625	(79,655)	3,970	Housing Revenue Account (HRA)	83,321	(79,888)	3,433
166,407	(69,333)	97,074	Adult Social Care	189,950	(91,143)	98,807
26,174	(32,972)	(6,798)	Health Improvement & Wellbeing	23,399	(29,000)	(5,601)
401,973	(281,925)	120,048	Education & Children's Services	375,390	(291,964)	83,426
46,919	(18,961)	27,958	Corporate Resources & Support	58,713	(25,863)	32,850
92,276	(94,258)	(1,982)	Housing Benefits	85,246	(86,599)	(1,353)
(4,505)	(7,839)	(12,344)	Corporate Items	1,404	(4,493)	(3,089)
-	(518)	(518)	Capital Financing		(517)	(517)
1,005,195	(651,253)	353,942	Cost of Services	992,825	(662,163)	330,662

Comprehensive Income and Expenditure Statement (continued)

2019/20			2020/21			
Gross Exp	Income	Net Exp		Gross Exp	Income	Net Exp
£000	£000	£000	Note	£000	£000	£000
		54,851	Other Operating Expenditure	11		(965)
		35,096	Financing and Investment Income and Expenditure	12		28,324
		(309,592)	Taxation and Non-Specific Grant Income	13		(386,303)
		134,297	(Surplus) or Deficit on Provision of Services	14		(28,282)
		(74,561)	(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets	26b		(65,432)
		(254,639)	Remeasurement of the Net Defined Benefit Liability	42		277,823
		(329,200)	Other Comprehensive Income & Expenditure			212,391
		(194,903)	Total Comprehensive Income & Expenditure			184,109

Movement in Reserves Statement

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”).

2020/21		General Fund Balance	Earmarked Reserves	General Fund Total	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	Note	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Restated Balance at 31st March 2020 brought forward		(15,000)	(244,434)	(259,434)	(32,825)	-	(110,441)	(66,628)	(469,328)	(1,317,779)	(1,787,107)
Total Comprehensive Expenditure and Income		(43,899)		(43,899)	15,617				(28,282)	212,391	184,109
Adjustments between accounting basis & Funding basis under regulation	9	(39,879)		(39,879)	(18,549)		(6,357)	(9,403)	(74,188)	74,188	-
Transfers to/(from) Earmarked Reserves	10, 25	83,778	(83,778)	-					-		-
Balance at 31st March 2021 carried forward		(15,000)	(328,212)	(343,212)	(35,757)	-	(116,798)	(76,031)	(571,798)	(1,031,200)	(1,602,998)

Movement in Reserves (continued)

2019/20		General Fund Balance	Earmarked Reserves	General Fund Total	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	Note	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Restated Balance at 31st March 2019 brought forward		(15,000)	(222,005)	(237,005)	(30,508)	-	(105,823)	(69,665)	(443,001)	(1,149,203)	(1,592,204)
Total Comprehensive Expenditure and Income		116,867	-	116,867	17,430	-	-	-	134,297	(329,200)	(194,903)
Adjustments between accounting basis & Funding basis under regulation	9	(139,296)	-	(139,296)	(19,747)	-	(4,618)	3,037	(160,624)	160,624	-
Transfers to/(from) Earmarked Reserves	10, 25	22,429	(22,429)	-	-	-	-	-	-	-	-
Restated Balance at 31st March 2020 carried forward		(15,000)	(244,434)	(259,434)	(32,825)	-	(110,441)	(66,628)	(469,328)	(1,317,779)	(1,787,107)



Balance Sheet

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

The top of the Balance Sheet shows the Council's 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 24), the Council's borrowing and the deficit on the Council's pension fund.

The bottom of the Balance Sheet shows how the Council's net assets are financed by reserves, which are divided into usable and unusable reserves.

31st March 2020		Note	31st March 2021
£000			£000
2,410,395	Property, Plant & Equipment	15	2,479,787
90,491	Heritage Assets	16	91,439
940	Intangible Assets	17	1,522
85,000	Long Term Investments	18	38,000
13,831	Long Term Debtors	20	13,329
2,600,657	Long Term Assets		2,624,077
153,712	Short Term Investments	18	168,439
2,100	Assets Held For Sale (<1 year)	22	1,847
2,747	Inventories	19	2,811
54,857	Short Term Debtors	20	94,995
59,043	Cash and Cash Equivalents	21	102,791
272,459	Current Assets		370,883

Balance Sheet (continued)

31st March 2020		Note	31st March 2021
£000			£000
(34,046)	Short Term Borrowing	18	(13,744)
(137,653)	Short Term Creditors	23	(173,656)
(4,620)	Provisions (<1 year)	24	(5,559)
(176,319)	Current Liabilities		(192,959)
(12,524)	Provisions (>1 year)	24	(8,663)
(180,115)	Long Term Borrowing	18	(180,111)
(703,168)	Other Long Term Liabilities	18	(1,003,410)
(13,884)	Capital Grants Receipts in Advance	35	(6,820)
(909,691)	Long Term Liabilities		(1,199,004)
1,787,106	Net Assets		1,602,997
	<u>Represented by:</u>		
469,328	Usable Reserves	25	571,798
1,317,778	Unusable Reserves	26	1,031,199
1,787,106	Total Reserves		1,602,997

Cash Flow Statement

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.

2019/20		2020/21	
£000		Note	£000
134,297	Net (surplus) or deficit on the provision of services		(28,282)
(260,918)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	27	(135,528)
76,714	Adjustments for items included in the net surplus or deficit on the provision of services that are investing or financing activities	27	109,569
(49,907)	Net cash flows from Operating Activities		(54,241)
50,997	Net cash flows from Investing Activities	28	(21,076)
(18,460)	Net cash flows from Financing Activities	29	31,569
(17,370)	Net (increase) or decrease in cash and cash equivalents		(43,748)
41,673	Cash in hand / (overdraft) and cash equivalents at the beginning of the reporting period		59,043
59,043	Cash in hand /(overdraft) and cash equivalents at the end of the reporting period	21	102,791

Explanatory Notes To The Core Financial Statements

Note 1 Accounting Policies

Changes in Accounting Policies

In 2020/21 there are no changes to our accounting policies.

Accounting Policies for 2020/21

1. General Principles

The Statement of Accounts summarises the City Council's transactions for the 2020/21 financial year and its position at the year end of 31 March 2021. 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. These practices comprise the Code of Practice on Local Authority accounting in the United Kingdom 2020/21, 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. Figures within the Statement of Accounts may be adjusted by up to £2,000 to take account of rounding differences arising due to reporting figures in thousands (£000s)

2. Recognition of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the good or services are transferred to the service recipient in accordance with the performance obligations of the contract.
- 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
- 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.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded on the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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. Charges to Revenue for Non-Current Assets

Service revenue accounts & support services 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

Note 1 Accounting Policies (continued)

4. Charges to Revenue for Non-Current Assets (continued)

- Revaluation & impairment losses on assets used by the service where there were no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- 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, revaluations, 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. The Council's MRP policy brings the charge into line with asset lives.

5. Council Tax & Non Domestic Rates

The Council as a billing authority acts as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Councils General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of the year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

6. 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 renders the service. An accrual is made for the 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.

Note 1 Accounting Policies (continued)

6. Employee Benefits (continued)

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 CIES when the Council is committed to the termination, or makes 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 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 CIES 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.

- The assets of the Leicestershire County Council Pension fund attributable to Leicester City Council are included in the Balance Sheet at their fair 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 CIES 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 CIES 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.

Note 1 Accounting Policies (continued)

6. Employee Benefits (continued)

Post-employment Benefits (continued)

- 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 a 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.

7. 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.

8. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the balance sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability.

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

Note 1 Accounting Policies (continued)

8. Financial Instruments (continued)

Financial Assets (continued)

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI) [separate accounting policy is required where an authority holds financial instruments at fair value through other comprehensive income].

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument).

9. Government Grants and Contributions

Grant Conditions

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.

Amounts recognised as due to the Council are not credited to the CIES until conditions attached to the grant or contributions have been satisfied. 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.

Monies advanced as grants and contribution for which conditions have not been satisfied are carried in the Balance Sheet as creditors.

Acting as a principal or agent

Grants are only recognised as income in the CIES, where the Council is acting as a principal. If the Council is acting as an intermediary, then the net balance of monies to either be repaid or due to the council, will be shown on the balance sheet.

It is deemed the Council is acting as a principal if they have control of a grant i.e. the ability to direct the use of and obtain substantially all of the remaining benefits from the grant.

10. 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.

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 is a lessor and 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 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).

Note 1 Accounting Policies (continued)

10. Leases (continued)

Council as Lessee

Where the Council is a lessee and 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 asset's 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.

11. Property Plant and Equipment

Assets that have physical substance and are held for use in the provision of services or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition:

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, subject to a de minimis limit of £10k so that small items of expenditure may be 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.

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 current value. Gains are credited to the Revaluation Reserve and included in the Other Comprehensive Income and Expenditure line of the CIES.

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

- Council dwellings – current value using basis of existing use value for social housing.

- Vehicles, plant and equipment - mainly at historic cost net of depreciation, with a few assets being subject to current value measurement.
- Infrastructure assets, Community assets and Assets under Construction – depreciated historic cost or nominal value in the main, with few being subject to current value measurement.
- All other assets including surplus assets - fair value, determined as the amount that would be paid for the asset in existing use (based on market value at highest and best use).

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

Assets included in the Balance Sheet at current value are revalued annually. Annual valuations of council dwellings are carried out by a specialist external valuer.

Note 1 Accounting Policies (continued)

11. Property Plant and Equipment (continued)

Impairment:

The values of each category of asset and of material individual assets are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified this is accounted for by charging the loss to the relevant service revenue account where it is clearly attributable to the consumption of economic benefit. Otherwise it is written off against previous revaluation gains attributable to the asset in the Revaluation Reserve, with any excess charges to the relevant service revenue 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 immediately revalued and reclassified as an Asset Held for Sale. The asset is then carried at the lower of that value and current value less costs to sell.

For assets that no longer meet the criteria of Assets Held For Sale 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). 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 1st 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.

Usable capital receipts are credited to the Usable Capital Receipts Reserve and can only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement).

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.

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. current less an adjustment for social housing) by the residual life (25-75 years) 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 over 5-7 years.
- 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.

Note 1 Accounting Policies (continued)

11. Property Plant and Equipment (continued)

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.

Heritage Assets

- Heritage assets are classified and measured on the following basis: Heritage Buildings – Current Value
- Museum/Gallery Exhibits (including Mayoral Regalia and Civic Silver) - Insurance Value (based on revaluation every three years)
- Statues and Monuments - Insurance Value

The carrying amounts in the Balance Sheet of all the assets (i.e. other than museum exhibits and assets held at nominal current value) are reviewed as part of the on-going revaluation programme undertaken by the Council. 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 17 – Property, Plant and Equipment on impairment.

Asset purchases will be recognised at cost and acquisitions (for example donations) 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 may dispose of heritage assets which have a doubtful provenance or are unsuitable for display. Proceeds of such items 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 Note 15 – Property, Plant and Equipment.

Heritage Assets are not depreciated.

12. 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. 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 asset on its Balance Sheet as part of Property, Plant and Equipment.

The initial recognition of the assets, at current value, is balanced by the recognition of the liability for amounts due to the scheme contractor to pay for the capital investment.

Note 1 Accounting Policies (continued)

The amounts payable to the PFI contractor each year comprise:

- 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.

13. 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 transfer of economic benefits and a reliable estimate can be made to the amount of the obligation.

Provisions are charged as an expense to the appropriate service in the CIES in the year that the Council becomes aware of the obligation and are measured at the best estimate at the balance sheet date, taking into account relevant risks and uncertainties.

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.

14. Reserves

The Council sets aside specific amounts as usable reserves for future policy provisions or to cover contingencies. Reserves are created by appropriating amounts of the General Fund Balance.

Certain unusable reserves are kept to manage the accounting process for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council. These reserves

are explained in further detail in Note 26 to the accounts.

15. 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, it is transferred from the General Fund to the Capital Adjustment Account so there is no impact on the level of Council Tax.

Note 1 Accounting Policies (continued)

16. Schools

Where the Council determines that the overall balance of control of schools lies within the Council those schools' assets, liabilities, reserves and cash flows are recognised in the Council financial statements. Therefore, schools' transactions, cash flows and balances are recognised in the Financial Statements of the Council as if they were the transactions, cash flows and balances of the Council. Academies and other schools such as voluntary aided schools, where control does not lie with the council, are excluded from the Council's financial statements.

17. 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.

18. Prior Period Adjustments, changes in accounting policies and estimates and errors

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

Changes in accounting policies are only made when required by proper accounting practices or

the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Note 2 Expenditure & Funding Analysis

The expenditure and funding analysis shows how annual expenditure is used and funded from resources by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices.

2020/21	Net Expenditure Charged to the HRA & General Fund Balance	Adjustments Between Accounting & Funding Basis	Net Expenditure on the Comprehensive Income & Expenditure Statement
	£000	£000	£000
City Development & Neighbourhoods	62,476	60,230	122,706
Housing Revenue Account (HRA)	(11,943)	15,376	3,433
Adult Social Care	96,086	2,721	98,807
Health Improvement & Wellbeing	(6,039)	438	(5,601)
Education & Children's Services	52,270	31,156	83,426
Corporate Resources & Support	30,635	2,215	32,850
Housing Benefits	(1,353)	-	(1,353)
Corporate Items	50,339	(53,428)	(3,089)
Capital Financing	(517)	-	(517)
Cost of Services	271,954	58,708	330,662
Other Operating Expenditure	(409)	(556)	(965)
Financing and Investment Income and Expenditure	27,431	893	28,324
Taxation and Non-Specific Grant Income	(385,686)	(617)	(386,303)
(Surplus) or Deficit on Provision of Services	(86,710)	58,428	(28,282)

Movement in Balances	General Fund / Earmarked Reserves	HRA	Total
Opening Balance	(259,434)	(32,825)	(292,259)
Surplus or Deficit in the Year	(83,778)	(2,932)	(86,710)
Closing Balance	(343,212)	(35,757)	(378,969)

Note 2 Expenditure & Funding Analysis (continued)

2019/20	Net Expenditure Charged to the HRA & General Fund Balance	Adjustments Between Accounting & Funding Basis	Net Expenditure on the Comprehensive Income & Expenditure Statement
	£000	£000	£000
City Development & Neighbourhoods	53,078	73,456	126,534
Housing Revenue Account (HRA)	(11,191)	15,161	3,970
Adult Social Care	91,440	5,634	97,074
Health Improvement & Wellbeing	(7,795)	997	(6,798)
Education & Children's Services	63,309	56,739	120,048
Corporate Resources & Support	23,840	4,118	27,958
Housing Benefits	(1,982)	-	(1,982)
Corporate Items	6,540	(18,884)	(12,344)
Capital Financing	(518)	-	(518)
Cost of Services	216,721	137,221	353,942
Other Operating Expenditure	(4,675)	59,526	54,851
Financing and Investment Income and Expenditure	27,734	7,362	35,096
Taxation and Non-Specific Grant Income	(264,526)	(45,066)	(309,592)
(Surplus) or Deficit on Provision of Services	(24,746)	159,043	134,297

Movement in Balances	General Fund / Earmarked Reserves	HRA	Total
Opening Balance	(237,005)	(30,508)	(267,513)
Surplus or Deficit in the Year	(22,429)	(2,317)	(24,746)
Closing Balance	(259,434)	(32,825)	(292,259)

Note 3 Accounting Standards Issued But Not Yet Adopted

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (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.

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

Definition of a Business: Amendments to IFRS 3 Business Combinations provides clarity on the definition of a business, we are not expecting this to affect our accounts when this is implemented from 1st April 2021.

Interest Rate Benchmark Reform phase 1 and phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Interest rate benchmark reform is expected to affect hedge accounting and therefore we are not expecting this to affect our accounts when this is implemented from 1st April 2021.

Note 4 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1 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.

Recognition of School Assets

Since 2014-15 the Council has adopted a policy of recognising only community school land and buildings as non-current assets in the balance sheet. Voluntary aided and foundation school assets are not recognised as Council assets as ownership and/or control of them lie with the bodies that manage them. Assets of community schools

that transfer to academies are written out of the balance sheet in the year in which transfer of school management takes place.

Property, Plant and Equipment

The Property, Plant and Equipment figure disclosed on the Balance Sheet includes 2 maintained schools that the council has substantial control over, but does not legally own. If these schools were omitted it would reduce the long term assets figure by £17.1m.

Note 5 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 31st March 2021 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 Material valuation uncertainty due to Coronavirus (COVID – 19) (£2.6bn) Refer to Note 15.	<p>The outbreak of the Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets.</p> <p>Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which the valuers can base judgement.</p> <p>Our valuations are therefore reported on the basis of "material valuation uncertainty" as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to our valuations than would normally be the case.</p>	<p>It is not possible to quantify the potential effect of this uncertainty on the valuations included in the accounts.</p>

Note 5 Assumptions made about the future and other major sources of estimation uncertainty continued

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p>Pensions Liability-Material valuation uncertainty due to Coronavirus (COVID – 19)</p> <p>The Councils pension fund property assets total £115m as shown at Note 42</p>	<p>The Pension Fund uses valuation techniques to determine the carrying amount of pooled property funds and directly held freehold property of which the Council has a share. Where possible these valuation techniques are based on observable data but where this is not possible managements uses the best available data. The outbreak of COVID-19 has impacted global financial markets and as at the valuation date, less weight can be attached to the previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement. Valuations on the Pension Fund property are reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently less certainty and a higher degree of caution should be attached to the valuation.</p>	<p>It is not possible to quantify the potential effect of this uncertainty on the valuations included in the accounts.</p>

Note 5 Assumptions made about the future and other major sources of estimation uncertainty continued

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p>Property, Plant & Equipment</p> <p>(Value - £2.6bn)</p> <p>(Depreciation - £139m)</p> <p>Refer to Note 15.</p>	<p>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.</p>	<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 £2m for every year that useful lives had to be reduced.</p>
<p>Fair Value Measurements</p> <p>(Surplus Assets - £69m)</p> <p>Refer to Note 15.</p>	<p>Some property (surplus) assets are held at Fair Value (see Accounting Policies & Notes 15 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.</p>	<p>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 variance will not affect the Council's financial strategy.</p> <p>An increase of 5% in the overall valuation would result in an increase in value of £3.5m.</p>
<p>Pensions Liability</p> <p>(Pension liability - £903m)</p> <p>Refer to Note 42.</p>	<p>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.</p>	<p>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 a 10% increase to the employers liability amounting to approximately £252m. A 0.5% increase in the projected rate of Pension Increase would mean an 9% increase to the employers' liability amounting to £224m. A 0.5% increase in the projected rate of salary increase would lead to an increased liability of 1% or £23m.</p>

Note 6 Material Items of Income and Expense

In 2020/21 there has been a material change in how services have been able to operate and how income is generated due to the pandemic. To compensate the Council has received additional Government grants, which are reflected in Note 35.

Furthermore, there has been an extensive business rates relief scheme, meaning that the collection fund deficit is higher compared to previous years. However, Government have provided some grants to offset the deficits and these are held separately in an Earmarked Reserve in Note 10.

Note 7 Events After the Balance Sheet Date

There were no significant events at the time of publishing these accounts.

Note 8 Note to the Expenditure and Funding Analysis

The following tables provide reconciliations between the main adjustments to Net Expenditure Chargeable to the General Fund and Housing Revenue Account balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. For the General Fund this also includes Earmarked Reserves.

2020/21	Adjustments Between Accounting & Funding Basis					Net Expenditure Charged to the HRA & General Fund Balance
	Net Expenditure on the Comprehensive Income & Expenditure Statement	Adjustments for Capital Purposes	Adjustments for Defined Benefit Pensions	Other Adjustments	Total	
	£000	£000	£000	£000	£000	£000
City Development & Neighbourhoods	122,706	(56,647)	(3,057)	(526)	(60,230)	62,476
Housing Revenue Account (HRA)	3,433	(14,106)	(1,352)	82	(15,376)	(11,943)
Adult Social Care	98,807	(1,099)	(1,403)	(219)	(2,721)	96,086
Health Improvement & Wellbeing	(5,601)	(77)	(335)	(26)	(438)	(6,039)
Education & Children's Services	83,426	(28,385)	(3,430)	659	(31,156)	52,270
Corporate Resources & Support	32,850	(156)	(1,716)	(343)	(2,215)	30,635
Housing Benefits	(1,353)				-	(1,353)
Corporate Items	(3,089)	52,875	292	261	53,428	50,339
Capital Financing	(517)				-	(517)
Cost of Services	330,662	(47,595)	(11,001)	(112)	(58,708)	271,954
Other Operating Expenditure	(965)	556			556	(409)
Financing and Investment Income and Expenditure	28,324	13,034	(13,927)		(893)	27,431
Taxation and Non-Specific Grant Income	(386,303)	36,385		(35,768)	617	(385,686)
(Surplus) or Deficit on Provision of Services	(28,282)	2,380	(24,928)	(35,880)	(58,428)	(86,710)

Note 8 Note to the Expenditure and Funding Analysis (continued)

2019/20	Adjustments Between Accounting & Funding Basis					Net Expenditure Charged to the HRA & General Fund Balance
	Net Expenditure on the Comprehensive Income & Expenditure Statement	Adjustments for Capital Purposes	Adjustments for Defined Benefit Pensions	Other Adjustments	Total	
	£000	£000	£000	£000	£000	£000
City Development & Neighbourhoods	126,534	(65,745)	(7,634)	(77)	(73,456)	53,078
Housing Revenue Account (HRA)	3,970	(11,986)	(3,272)	97	(15,161)	(11,191)
Adult Social Care	97,074	(2,462)	(3,232)	60	(5,634)	91,440
Health Improvement & Wellbeing	(6,798)	(136)	(873)	12	(997)	(7,795)
Education & Children's Services	120,048	(44,590)	(11,156)	(993)	(56,739)	63,309
Corporate Resources & Support	27,958	(69)	(4,071)	22	(4,118)	23,840
Housing Benefits	(1,982)	-	-	-	-	(1,982)
Corporate Items	(12,344)	12,392	6,490	2	18,884	6,540
Capital Financing	(518)					(518)
Cost of Services	353,942	(112,596)	(23,748)	(877)	(137,221)	216,721
Other Operating Expenditure	54,851	(59,526)	-	-	(59,526)	(4,675)
Financing and Investment Income and Expenditure	35,096	11,770	(19,753)	621	(7,362)	27,734
Taxation and Non-Specific Grant Income	(309,592)	40,685	-	4,381	45,066	(264,526)
(Surplus) or Deficit on Provision of Services	134,297	(119,667)	(43,501)	4,125	(159,043)	(24,746)

Note 8 Note to the Expenditure and Funding Analysis (continued)

Adjustments for Capital Purposes

This column adds depreciation, impairment and revaluation gains and losses into the services line, and for:

- **Other Operating Expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and Investment Income and Expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and Non-specific Grant Income and Expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-Specific Grant Income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions are satisfied in the year.

Net Change for Pensions Adjustments

This column is for the removal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and Investment Income and Expenditure – the net interest on the defined benefit liability is charges to the CIES.

Other Adjustments

These columns reflect other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable receivable to be recognised under statute.

- For Financing and Investment Income and Expenditure figures reflect the adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under taxation and non-specific grant income and expenditure figures reflect the difference between what is chargeable under statutory regulations for Council Tax and NDR that was projected

to be received at the start of the year and the income.

- The reversal of officers remuneration chargeable on an accruals basis is different to that chargeable under statutory requirements

Note 9 Adjustments between Accounting Basis and Funding Basis under Regulations

Adjustment	2020/21					
	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
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Account:						
Charges for depreciation, capital expenditure not adding value and amortisation of non-current assets	(75,449)	(27,953)	-	-	-	103,402
Revaluation gains/(losses) on Property Plant and Equipment	2,607	3	-	-	-	(2,610)
Capital grants and contributions applied	77,134	25	-	-	-	(77,159)
Capital expenditure funded from revenue	2,418					(2,418)
Revenue expenditure funded from capital under statute	(13,907)		-	-	-	13,907
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	(8,987)	(11,212)	-	-	-	20,199
Income recognised in respect of donated assets	10		-	-	-	(10)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Account:						
Statutory provision for the financing of capital investment	12,368	667	-	-	-	(13,035)
Voluntary provision for the financing of capital expenditure	680		-	-	-	(680)
Capital expenditure charged against the General Fund and HRA balances		1,682	-	-	-	(1,682)
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	13,943	9,029	(22,972)	-	-	
Use of the Capital Receipts Reserve to finance new capital expenditure			14,691	-	-	(14,691)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(250)	(265)	515	-	-	
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1,703)		1,703	-	-	

Note 9 Adjustments between Accounting Basis and Funding Basis under Regulations (continued)

Adjustment Continued	2020/21					Movemt in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			(293)	-	-	293
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement				-	-	-
Adjustments primarily involving the Major Repairs Reserve:						
Transfer of HRA depreciation costs to Major Repairs Reserve		12,137		(12,137)	-	-
Use of the Major Repairs Reserve to finance new capital expenditure				12,137	-	(12,137)
Adjustments primarily involving the Capital Grants Unapplied Reserve:						
Capital grants recognised in the year and credited to the Capital Grants Unapplied Reserve	84,277				(84,277)	-
Application of grants to capital financing credited to the Capital Adjustment Account	(74,873)				74,873	-
Adjustments primarily involving the Financial Instruments Adjustments Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	261	359	-	-	-	(620)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(66,479)	(8,220)	-	-	-	74,699
Employer's pensions contributions and direct payments to pensioners payable in the year	44,294	5,477	-	-	-	(49,771)
Adjustments primarily involving the Collection Fund Adjustment Account:						
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	(35,768)	-	-	-	-	35,768
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(455)	(278)	-	-	-	733
Total Adjustments	(39,879)	(18,549)	(6,356)	-	(9,404)	(74,188)

Note 9 Adjustments between Accounting Basis and Funding Basis under Regulations (continued)

Adjustment	2019/20					Movemnt in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000	£000	
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Account:						
Charges for depreciation, capital expenditure not adding value and amortisation of non-current assets	(85,019)	(26,177)	-	-	-	111,196
Revaluation gain/(losses) on Property Plant and Equipment	(15,311)	(375)	-	-	-	15,686
Capital grants and contributions applied	51,722	22	-	-	-	(51,744)
Capital expenditure funded from revenue	4,712	-	-	-	-	(4,712)
Revenue expenditure funded from capital under statute	(13,071)	-	-	-	-	13,071
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	(63,865)	(21,203)	-	-	-	85,068
Income recognised in respect of donated assets	80	-	-	-	-	(80)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Account:						
Statutory provision for the financing of capital investment	11,416	355	-	-	-	(11,771)
Voluntary provision for the financing of capital expenditure		-	-	-	-	
Capital expenditure charged against the General Fund and HRA balances	-	2,881	-	-	-	(2,881)
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	9,216	18,405	(27,621)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	20,806	-	-	(20,806)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(250)	(532)	782	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1,703)	-	1,703	-	-	-

Note 9 Adjustments between Accounting Basis and Funding Basis under Regulations (continued)

Adjustment Continued	2019/20					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movemt in Unusable Reserves £000
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	(288)	-	-	288
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	406	-	-	-	-	(406)
Adjustments primarily involving the Major Repairs Reserve:						
Transfer of HRA depreciation costs to Major Repairs Reserve	-	11,662	-	(11,662)	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	11,662	-	(11,662)
Adjustments primarily involving the Capital Grants Unapplied Reserve:						
Capital grants recognised in the year and credited to the Capital Grants Unapplied Reserve	44,545	-	-	-	(44,545)	-
Application of grants to capital financing credited to the Capital Adjustment Account	(47,582)	-	-	-	47,582	-
Adjustments primarily involving the Financial Instruments Adjustments Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	261	360	-	-	-	(621)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(79,987)	(10,729)	-	-	-	90,716
Employer's pensions contributions and direct payments to pensioners payable in the year	41,728	5,487	-	-	-	(47,215)
Adjustments primarily involving the Collection Fund Adjustment Account:						
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	4,381	-	-	-	-	(4,381)
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(975)	97	-	-	-	878
Total Adjustments	(139,296)	(19,747)	(4,618)	-	3,037	160,624

Note 10 - Movement in Earmarked Reserves

Earmarked reserves are amounts set side to provide financing for future expenditure plans. The table below provides a list of reserves held by the Council. Additional information on the earmarked reserves can be found in the Council's outturn report.

The breakdown of earmarked reserves has been restated to reflect the headings reported to management.

2020/21	Balance at 31st March 2020	Transfers In 2020/21	Transfers Out 2020/21	Balance at 31st March 2021
	£000	£000	£000	£000
Ring-fenced Reserves				
DSG not delegated to schools	5,577	171	(4,315)	1,433
School Balances	14,955	10,352	(1,199)	24,108
School Capital Fund	2,750	3	-	2,753
Education & Skills Funding Agency Learning Programme	863	249	-	1,112
Arts Council National Portfolio Organisation Funding	822	23	-	845
Schools Buy Back	2,486	-	(57)	2,429
Business Support Grants	-	2,722	-	2,722
Covid-19 Collection Fund Compensation Grants*	-	25,720	-	25,720
Total Ring-fenced Reserves	27,453	39,240	(5,571)	61,122
Corporate Reserves				
Capital Programme Reserve	57,591	44,090	(4,094)	97,587
Managed Reserves Strategy	66,808	15,830	(12,377)	70,261
Pandemic Reserve	10,849	-	(10,849)	-
BSF Financing	7,493	1,335	(190)	8,638
Insurance Fund	8,519	2,089	-	10,608
Severance Fund	4,821	6	-	4,827
Service Transformation Fund	3,730	2,655	(518)	5,867
Welfare Reserve	5,505	1,589	(665)	6,429
Other Corporate Reserves	4,604	777	(729)	4,652
Total Corporate Reserves	169,920	68,371	(29,422)	208,869
Earmarked Reserves Departmental				
Financial Services Reserve	4,070	700	(1,718)	3,052
ICT Development Fund	6,265	3,171	(1,000)	8,436
Delivery, Communications & Political Governance	4,550	576	(1,649)	3,477
Housing	2,118	332	(92)	2,358
City Development (Excl Housing)	5,308	4,944	(870)	9,382
Social Care Reserve	17,142	304	(105)	17,341
Health & Wellbeing Division	4,088	1,490	(1,287)	4,291
NHS Joint Working Projects	2,483	7,079	(142)	9,420
Other Departmental Reserves	1,037	-	(573)	464
Total Other Reserves	47,061	18,596	(7,436)	58,221
Total Earmarked Reserves	244,434	126,207	(42,429)	328,212

*Covid-19 Collection Fund Compensation/Grants reserve contains government grant received in relation to collection fund deficits that will be realised in 21/22.

Note 10 - Movement in Earmarked Reserves (continued)

2019/20	Balance at 31st March 2019 £000	Transfers In 2019/20 £000	Transfers Out 2019/20 £000	Balance at 31st March 2020 £000
Ring-fenced Reserves				
DSG not delegated to schools	8,210	4,659	(7,292)	5,577
School Balances	17,227	5,292	(7,564)	14,955
School Capital Fund	2,958	21	(229)	2,750
Education & Skills Funding Agency Learning Programmes	1,353	139	(629)	863
Arts Council National Portfolio Organisation Funding	666	156	-	822
Schools Buy Back	2,656	189	(359)	2,486
Total Ring-fenced Reserves	33,239	10,456	(16,242)	27,453
Corporate Reserves				
Capital Programme Reserve	50,328	39,348	(32,085)	57,591
Managed Reserves Strategy	55,955	37,642	(26,789)	66,808
Pandemic Reserve	-	10,849	-	10,849
BSF Financing	12,167	511	(5,185)	7,493
Insurance Fund	11,590	2,362	(5,433)	8,519
Severance Fund	6,328	-	(1,507)	4,821
Service Transformation Fund	4,912	-	(1,182)	3,730
Welfare Reserve	3,383	6,738	(4,616)	5,505
Other Corporate Reserves	4,345	669	(410)	4,604
Total Corporate Reserves	149,008	98,119	(77,207)	169,920
Earmarked Reserves Departmental				
Financial Services Reserve	3,708	2,098	(1,736)	4,070
ICT Development Fund	3,495	3,000	(230)	6,265
Delivery, Communications & Political Governance	5,654	26	(1,130)	4,550
Housing	1,580	957	(419)	2,118
City Development (Excl Housing)	3,616	3,601	(1,909)	5,308
Social Care Reserve	15,298	10,768	(8,924)	17,142
Health & Wellbeing Division	3,463	1,712	(1,087)	4,088
NHS Joint Working Projects	1,769	714	-	2,483
Other Departmental Reserves	1,175	-	(138)	1,037
Total Other Reserves	39,758	22,876	(15,573)	47,061
Total Earmarked Reserves	222,005	131,451	(109,022)	244,434

Note 11 Other Operating Expenditure

	2019/20	2020/21
	£000	£000
Payments to the government Housing Capital Receipts Pool	1,703	1,703
Total (gains)/losses on the disposal of non-current assets	57,824	(2,258)
Other operating income and expenditure	(4,676)	(410)
Total	54,851	(965)

Note 12 Financing and Investment Income & Expenditure

	2019/20	2020/21
	£000	£000
Interest payable and similar charges	18,550	17,248
Pensions interest cost and expected return on pensions assets	19,753	13,927
Interest receivable and similar income	(3,207)	(2,851)
Total	35,096	28,324

Note 13 Taxation and Non-Specific Grant Income & Expenditure

	2019/20	2020/21
	£000	£000
Council Tax income	(115,041)	(118,242)
Non-domestic rates	(129,250)	(72,412)
Non-ringfenced government grant Income	(24,536)	(141,093)
Non-ringfenced government grant Expenditure*	-	20,682
Capital grants and contributions	(40,685)	(75,228)
Donated Assets	(80)	(10)
Total	(309,592)	(386,303)

*Covid-19 related grant expenditure in the form of Business Support and Council Tax Hardship grants.

Note 14 Expenditure and Income Analysed by Nature

The Council's expenditure and income reported in the Comprehensive Income & Expenditure Statement is analysed by nature in the table below.

	2019/20	2020/21
	£000	£000
Expenditure		
Employee Benefit Expenses	411,011	399,812
Other Services expenses	516,109	513,147
Depreciation, amortisation, impairment	111,194	103,402
Interest Payments	38,303	31,175
Precepts & Levies	85	88
Payments to Housing Capital Receipts pool	1,703	1,703
(Gain)/ Loss on the Disposal of Assets	57,824	(2,258)
Total Expenditure	1,136,229	1,047,069
Income		
Fees, charges and other service income	(188,193)	(112,846)
Interest & Investment Income	(3,207)	(2,851)
Income from Council Tax, non domestic rates	(244,291)	(190,654)
Government grants & contributions	(566,241)	(769,000)
Total Income	(1,001,932)	(1,075,351)
(Surplus) or Deficit on Provision of Services	134,297	(28,282)

Note 15 Property, Plant and Equipment - Movement on Balances in 2020/21

The first table in this note illustrates the change in the value of the Council's property, plant and equipment assets during 2020/21. The following tables provide additional detail on the basis for valuations of these assets and future capital expenditure already committed.

Movements on Balances in 2020/21	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & 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
Cost or Valuation									
At 1st April 2020	1,001,516	1,079,555	100,599	285,045	4,302	73,633	3,020	2,547,670	137,898
Additions	40,856	24,439	11,401	38,212	183	3,168	4,692	122,951	11,301
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	46,250	(22,716)	(3,540)	-	(82)	330	-	20,242	(7,212)
Revaluation Increases/(Decreases) not recognised in the Revaluation Reserve	(14,865)	(7,873)	(38)	(25,375)	(842)	(1,919)	-	(50,912)	-
De-recognition – disposals	(11,212)	(856)	(1,702)	-	(4)	(6,083)	-	(19,857)	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	(246)	-	(246)	-
Asset reclassified (other)	-	781	-	(48)	(1,318)	(55)	-	(640)	-
As at 31st March 2021	1,062,545	1,073,330	106,720	297,834	2,239	68,828	7,712	2,619,208	141,987

Note 15 Property, Plant and Equipment - Movement on Balances in 2020/21 (continued)

Movements on Balances in 2020/21	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & 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
Accumulated Depreciation &									
At 1st April 2020	-	(6,668)	(54,590)	(75,991)	-	(26)	-	(137,275)	(15,879)
Depreciation Charge	(10,884)	(24,746)	(7,473)	(7,109)	(29)	(37)	-	(50,278)	(4,775)
Depreciation written out to the Revaluation Reserve	10,884	29,391	4,131	-	29	53	-	44,488	9,625
Depreciation written out to the Surplus/Deficit on the provision of services	-	1,951	-	-	-	9	-	1,960	-
De-recognition – disposals	-	57	1,626	-	-	1	-	1,684	-
Assets reclassified to/(from) Held for Sale	-	-	-	-	-	-	-	-	-
As at 31st March 2021	-	(15)	(56,306)	(83,100)	-	-	-	(139,421)	(11,029)
Net Book Value as at 31st March 2021	1,062,545	1,073,315	50,414	214,734	2,239	68,828	7,712	2,479,787	130,958
As at 1st April 2020	1,001,516	1,072,887	46,009	209,054	4,302	73,607	3,020	2,410,395	122,019

Note 15 Property, Plant and Equipment - Movement on Balances in 2019/20

Comparative Movements	Council Dwellings	Other Land & 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
Cost or Valuation									
At 1st April 2019	950,471	1,171,025	91,682	275,602	4,047	75,833	2,853	2,571,513	137,717
Additions	42,675	23,754	4,267	26,311	96	4,253	167	101,523	4,460
Revaluation									
Increases/(Decreases) recognised in the Revaluation Reserve	43,621	(13,339)	8,086	15	247	(656)	-	37,974	(2,082)
Revaluation									
Increases/(Decreases) not recognised in the Revaluation Reserve	(14,047)	(40,080)	(3,436)	(16,883)	(88)	(4,444)	-	(78,978)	(2,197)
De-recognition – disposals	(21,204)	(60,730)	-	-	-	(1,599)	-	(83,533)	-
Assets reclassified (to)/from Held for Sale	-	(1,075)	-	-	-	246	-	(829)	-
Asset reclassified (other)	-	-	-	-	-	-	-	-	-
As at 31st March 2020	1,001,516	1,079,555	100,599	285,045	4,302	73,633	3,020	2,547,670	137,898

Note 15 Property, Plant and Equipment - Movement on Balances in 2019/20 (continued)

Comparative Movements	Council Dwellings	Other Land & 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
Accumulated Depreciation & Impairment									
At 1st April 2019	-	(9,181)	(54,301)	(69,066)	-	(28)	-	(132,576)	(13,670)
Depreciation Charge	(10,355)	(26,654)	(6,796)	(6,874)	(13)	(37)		(50,729)	(4,773)
Depreciation written out to the Revaluation Reserve	10,355	24,582	3,445	-	13	12		38,407	2,564
Depreciation written out to the Surplus/Deficit on the provision of services	-	3,348	3,062	(51)	-	27		6,386	-
De-recognition – disposals	-	1,237	-	-	-	-		1,237	-
Assets reclassified to/(from) Held for Sale	-	-	-	-	-	-		-	-
As at 31st March 2020	-	(6,668)	(54,590)	(75,991)	-	(26)	-	(137,275)	(15,879)
Net Book Value as at 31st March 2020	1,001,516	1,072,887	46,009	209,054	4,302	73,607	3,020	2,410,395	122,019
As at 1st April 2019	950,471	1,161,844	37,381	206,536	4,047	75,805	2,853	2,438,937	124,047

Note 15 Property, Plant and Equipment - Capital Commitments

At 31st March 2021, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2021/22. Similar commitments at 31st March 2020 were £19.5m. The significant commitments are:

Contract for Capital Investment	Period	£000
Council House Acquisitions	2021-22	9,450
Waterside Strategic Regeneration Area	2022-23	4,945
Ashton Green Highway Infrastructure	2021-22	4,565
Fleet Replacement	2021-22	2,412
Jewry Wall Museum Refurbishments	2021-22	2,123
Street Improvements	2021-22	1,104
Leisure Centre Improvement Programme	2021-22	690
Goscote House	2021-22	378
Knighton Fields Centre	2021-22	291
Replacement of RFID Library Self-Service	2021-22	272
Total		26,230

Note 15 Property, Plant and Equipment - Revaluations

2020/21 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	-	-	81,344	296,515	40	-	7,712	385,611
Valued at fair or nominal value as at:								
Pre 1st April 2012	-	38	-	-	-	-	-	38
1st April 2012	-	-	-	-	-	-	-	-
1st April 2013	-	1	-	-	-	-	-	1
1st April 2014	-	2	-	686	19	-	-	707
1st April 2015	-	-	-	-	-	-	-	-
1st April 2016	-	-	-	-	-	14	-	14
1st April 2017	-	-	-	-	1	-	-	1
Valued @ 31st March 2019	-	23	-	-	3	21	-	47
Valued @ 31st March 2020	-	12	-	-	77	-	-	89
Valued @ 31st March 2021	1,062,545	1,073,254	25,376	633	2,099	68,793	-	2,232,700
Total	1,062,545	1,073,330	106,720	297,834	2,239	68,828	7,712	2,619,208

The Council carries out a rolling programme of valuations that ensures that all property and land (subject to a de minimis of £10k for asset values) required to be measured at current value are revalued annually. The few exceptions to this rule appear in the table above. All property and land assets that are valued at Market Value are subject to annual review.

Properties are now valued as at the 31st March of the financial year using forecast indices, if appropriate, to ensure that the valuation is still correct at the financial year end.

Annual valuations of council dwellings are carried out by a specialist external valuer and are based on guidance issued by the Ministry of Housing, Communities and Local Government. All other valuations are carried out internally by an accredited valuer and chartered member of the Royal Institution of Chartered Surveyors (RICS), 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.

Note 16 Heritage Assets

The Council holds a number of Heritage Assets, defined as assets having historical, artistic, scientific, technological, geophysical or environmental qualities, and that are held and maintained principally for their contribution to knowledge and culture.

The following tables show the movement in the value of Heritage assets during 2020/21 and the previous year.

Heritage Buildings

These include the Magazine, Abbey House and the Great Hall at Leicester Castle. The land and buildings relating to these assets are included within the revaluation cycle employed by the Council. However, none of these assets are charged depreciation as per the Council's stated accounting policy on Heritage Assets (see Note 1). Some buildings that are part of Leicester's heritage are included within Property, Plant & Equipment (Note 15).

Museum Exhibits

Leicester City Council operates six museums in the City. The museum sites are accredited museums, meaning they meet standards approved by the Arts Council on behalf of the Department for Culture, Media and Sport for collections care, visitor experience and organisational health.

There are currently around two million museum

and gallery exhibits which are managed in accordance with the policies and procedures approved by the Council in line with nationally and internationally agreed standards.

Museum exhibits are included in the Balance Sheet at insurance value rather than current or fair value, reflecting the fact that sales and exchanges are uncommon. However, during the year the basis of the insurance value was changed to exclude costs associated with auction purchases. Additions to the exhibits collection are initially included at historical cost and are then included as part of the annual insurance revaluation.

Some of the City Council's museum exhibits collection are displayed at the King Richard III Visitor Centre.

Statues and Monuments

The Council has responsibility for a number of statues and monuments across the City. A number of the more significant assets are included at insurance values. The remainder are included at a nominal value as per our stated accounting policy on Heritage Assets.

Note 16 Heritage Assets (continued)

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

Movement on Balances 2020/21	Museum Statues & Total			
	Buildings	Exhibits	Monument	Assets
	£000	£000	£000	£000
Cost or Valuation				
At 1st April 2020	2,494	82,121	5,876	90,491
Additions	-	381	-	381
Impairment losses recognised in surplus/deficit on the provision of services		(199)		(199)
Disposals	-	-	-	-
Revaluations	(31)	797	-	766
As at 31st March 2021	2,463	83,100	5,876	91,439

2019/20 Comparative Movements	Museum Statues & Total			
	Buildings	Exhibits	Monument	Assets
	£000	£000	£000	£000
Cost or Valuation				
At 1st April 2019	2,883	83,468	5,876	92,227
Additions	-	83	-	83
Disposals	-	-	-	-
Revaluations	(389)	(1,430)	-	(1,819)
As at 31st March 2020	2,494	82,121	5,876	90,491

Note 17 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.

	2019/20	2020/21
	£000	£000
Balance at 1st April		
Gross Carrying Amounts	3,438	3,438
Accumulated Amortisation	(1,838)	(2,498)
Net carrying amount at 1st April	1,600	940
Additions (Purchases)	731	1,806
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	(731)	(564)
Write-out of impairment amortisation	-	-
Reclassified from other asset classifications	-	-
Amortisation applied in Year	(660)	(660)
Gross Carrying Amount at 31st March	3,438	4,680
Accumulated Amortisation	(2,498)	(3,158)
Net Carrying Amount at 31st March	940	1,522

Note 18a 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.

Category	Amount	Amount	Comment / Reference
	31st March 2020	31st March 2021	
	£000	£000	
Long Term Investments			
Amount in Balance Sheet	85,000	38,000	
Amounts covered in Note 18:	85,000	38,000	This note - section B Table 2
Short Term Investments			
Amount in Balance Sheet	153,712	168,439	
Amounts covered in Note 18:	153,712	168,439	This note - section B Table 2
Short Term Borrowing			
Amount in Balance Sheet	34,046	13,744	
Amounts covered in Note 18:	34,046	13,744	This note - section B Table 1
Long Term Borrowing			
Amount in Balance Sheet	180,115	180,111	
Amounts covered in Note 18:	180,115	180,111	This note - section B Table 1
Other Long Term Liabilities			
Amount in Balance Sheet	703,168	1,003,410	
Amounts covered in Note 18:	102,518	100,002	This note - section B Table 1
Amounts not covered in Note 18:			
Liability related to defined benefit pension schemes	600,488	903,239	Note 42 - Defined Benefit Pensions
Amounts related to Bonds	162	169	Not separately disclosed

Note 18b Financial Instruments - Balances

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

Table 1

Financial Liabilities	Long Term		Short Term	
	31st March 2020	31st March 2021	31st March 2020	31st March 2021
	£000	£000	£000	£000
Loans at amortised cost:				
- Principal sum borrowed	179,491	179,491	32,529	12,265
- Accrued interest	-	-	1,517	1,479
- EIR adjustments	624	620		
Total Borrowing	180,115	180,111	34,046	13,744
Liabilities at amortised cost:				
- Finance leases	8,816	8,583	224	233
- PFI arrangements	70,794	69,473	4,685	3,421
- Transferred debt liability	22,419	21,484	975	975
Total Other Long-term Liabilities	102,029	99,540	5,884	4,629
Liabilities at amortised cost:				
- Trade payables	-	-	54,816	57,110
- PFI arrangements	489	462	-	-
Included in Creditors	489	462	54,816	57,110
Total Financial Liabilities	282,633	280,113	94,746	75,483

Note 18b Financial Instruments - Balances (continued)

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

Table 2

Financial Assets	Long Term		Short Term	
	31st March 2020	31st March 2021	31st March 2020	31st March 2021
	£000	£000	£000	£000
Amortised cost:				
- Principal at amortised cost	85,000	38,000	145,000	160,000
- Accrued interest	-	-	1,105	977
Other:				
Fair Value	-	-	7,607	7,462
Total Investments	85,000	38,000	153,712	168,439
Amortised cost:				
- Cash (including bank accounts)	-	-	15,943	33,592
Other:				
- Cash equivalents at fair value through profit and loss	-	-	43,100	69,200
Total Cash and Cash Equivalents	-	-	59,043	102,792
Amortised Cost:				
- Trade receivables	4,305	4,313	8,611	3,413
- Loans made for service purposes	8,959	8,311	758	392
Included in Debtors	13,264	12,624	9,369	3,805
Total Financial Assets	98,264	50,624	222,124	275,036

Note 18c 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			
	Amortised Cost	Amortised Cost	Other	2020/21 Total	2019/20 Total
	£000	£000	£000	£000	£000
Financial assets measured at fair value through profit or loss	-	-	145	145	685
Financial assets measured at amortised cost	-	(13)	-	(13)	1,487
Net (gains)/losses	-	(13)	145	132	2,172
Interest expense	17,248	-	-	17,248	18,550
Premia on loan repayment*	-	-	-	-	-
Interest payable and similar charges	17,248	-	-	17,248	18,550
Interest income	-	(2,428)	(291)	(2,719)	(2,885)
Dividends	-	-	(132)	(132)	(322)
Interest and investment income	-	(2,428)	(423)	(2,851)	(3,207)
Net (Gain)/Loss for the Year	17,248	(2,441)	(278)	14,529	17,515

Note 18d 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.

Some of the authority's financial assets are measured at fair value on a recurring basis and are described below:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices. There are only MMF at this hierarchy level and they are quoted at the active market price.
- 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. Most financial instruments valued at this level are based on observed market rates for similar transactions. However, for lease payables, PFI liabilities and transferred debt liabilities they are based on discounting at AA corporate bond yields.
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness. This applies to loans to other companies and they are quoted at estimated creditworthiness.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the money was borrowed when interest rates were higher than they are now.

The table shows the amounts held at 31st March 2021 and the fair value reported in the 2020/21 accounts.

		31st March 2020		31st March 2021	
	Fair Value Level	Balance Sheet £000	Fair Value £000	Balance Sheet £000	Fair Value £000
<i>Financial liabilities held at amortised cost:</i>					
Long-term loans from PWLB	2	134,491	197,519	134,491	199,399
Long-term LOBO loans	2	20,624	34,176	20,620	33,959
Other long-term loans	2	25,000	36,208	25,000	35,857
Lease payables and PFI liabilities	2	85,008	138,492	83,427	143,231
Transferred debt liabilities	2	23,394	33,069	22,458	34,787
Total		288,517	439,464	285,996	447,233
Liabilities for which fair value is not disclosed *		88,862		70,855	
Total Financial Liabilities		377,379	439,464	356,851	447,233
<i>Recorded on balance sheet as:</i>					
Short-term creditors		61,189		63,455	
Short-term borrowing		34,046		13,744	
Long-term creditors		22,419		21,484	
Long-term borrowing		180,115		180,111	
Other long-term liabilities		79,610		78,057	
Total Financial Liabilities		377,379		356,851	

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

Note 18d Financial Instruments - Fair Values (continued)

		31st March 2020		31st March 2021	
	Fair Value Level	Balance Sheet £000	Fair Value £000	Balance Sheet £000	Fair Value £000
<i>Financial assets held at fair value:</i>					
Money market funds	1	43,100	43,100	69,200	69,200
Property Unit Trusts	2	7,607	7,607	7,462	7,462
<i>Financial assets held at amortised cost:</i>					
Long-term loans to local authorities	2	85,000	86,089	38,000	38,496
Long-term loans to companies	3	7,913	7,913	7,294	7,294
Finance Lease	3	1,046	1,046	1,017	1,017
Total		144,666	145,755	122,973	123,469
Assets for which fair value is not disclosed *		175,723	-	202,675	-
Total Financial Assets		320,389	145,755	325,648	123,469
<i>Recorded on balance sheet as:</i>					
Long-term debtors		13,264		12,625	
Long-term investments		85,000		38,000	
Short-term debtors		9,370		3,792	
Short-term investments		153,712		168,439	
Cash and cash equivalents		59,043		102,792	
Total Financial Assets		320,389		325,648	

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

Note 19 Inventories

The value of inventories as at 31st March :

	Balance at 31st March 2020	Balance at 31st March 2021
	£000	£000
Consumable Stores	375	329
Maintenance Materials	2,003	2,148
Work in Progress	369	334
Total	2,747	2,811

Note 20 Debtors

Long-Term Debtors

The value of long-term debtors as at 31st March :

	Balance at 31st March 2020	Balance at 31st March 2021
	£000	£000
PFI Lease	2,659	2,845
Other Long Term Debtors	11,172	10,484
Total	13,831	13,329

Short-Term Debtors

The value of short-term debtors as at 31st March:

	Balance at 31st March 2020	Balance at 31st March 2021
	£000	£000
Central Government bodies	6,342	41,950
Other Local Authorities	2,412	6,983
NHS bodies	3,833	4,984
Public Corporations and Trading Funds	2	1
Other Entities and Individuals	20,853	17,955
Payments in Advance	8,524	7,679
Local Taxation (Council Tax & Business Rates)	12,891	15,443
Total	54,857	94,995

Note 21 Cash and Cash Equivalents

The value of cash and cash equivalents as at 31st March:

	Balance at 31st March 2020	Balance at 31st March 2021
	£000	£000
Cash held by the Council	33	22
Bank	15,910	33,569
Short-term deposits	43,100	69,200
Total Cash and Cash Equivalents	59,043	102,791

Note 22 Assets Held for Sale

The value of assets held for sale as at 31st March:

	2019/20	2020/21
	£000	£000
Balance at 1st April	3,863	2,100
Property, Plant and Equipment newly classified as held for sale	1,075	886
Property, Plant and Equipment declassified as held for sale	(246)	-
Assets Sold	(2,592)	(1,075)
Other Adjustments	-	(64)
Balance at 31st March	2,100	1,847

Note 23 Creditors

The value of creditors as at 31st March:

	Balance at 31st March 2020	Balance at 31st March 2021
	£000	£000
Central Government bodies	27,158	28,490
Other Local Authorities	8,769	10,149
NHS bodies	916	140
Public Corporations and Trading Funds	8	-
Other Entities and Individuals	68,706	71,955
Receipts in Advance	32,096	62,922
Total	137,653	173,656

Note 24 Provisions

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

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 £3.3m is held as a provision, being the amount that the Council estimates will be required to meet claims already received. A further sum of £10.6m is held as an earmarked reserve (as per Note 10), to meet the costs of liabilities incurred for which claims have not been received. Periodically, the fund value is reviewed by actuaries.

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. This can lead to the value of the claim being reduced, based on an extrapolation. A provision is maintained based on the total value of the subsidy claims outstanding. The provision currently totals £0.7m.

	Insurance	Housing Benefits	s117 Mental Health Act	Housing	Business Rate Appeals	Total
	£000	£000	£000	£000	£000	£000
Balance at 1st April 2019	3,942	1,050	39	697	6,926	12,654
Net Movement (additions less amounts used)	(165)	(45)	-	(12)	4,712	4,490
Balance at 1st April 2020	3,777	1,005	39	685	11,638	17,144
2020/21 Provisions/(Reductions)	(3,614)	-	-	88	1,770	(1,756)
Amounts used in 2020/21	3,144	(348)	-	-	(3,962)	(1,166)
Balance at 31st March 2021	3,307	657	39	773	9,446	14,222

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, for which there is a possibility that the Council will be required to make refunds.

Housing Provisions

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

Business Rate appeals

A number of appeals against rateable value assessments have not been determined by the Valuation Office Agency. If successful, there will be a retrospective reduction in income. Therefore, a provision has been charged to the collection fund calculated at a total of £19.3m (Council share of £9.4m).

Note 25 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	Movement	Closing Balance	Supporting Note
	£000	£000	£000	
General Fund	(15,000)	-	(15,000)	MIRS and Narrative Statement
Earmarked Reserves	(244,434)	(83,778)	(328,212)	Note 10 and Narrative Statement
Total General Fund Reserves	(259,434)	(83,778)	(343,212)	
Housing Revenue Account	(32,825)	(2,932)	(35,757)	HRA Statements and Notes
Major Repairs Reserve	-	-	-	Note 9 and HRA Note 13
Capital Receipts Reserve	(110,441)	(6,357)	(116,798)	Note 9
Capital Grants Unapplied Reserve	(66,628)	(9,403)	(76,031)	Note 9
Total Usable Reserves	(469,328)	(102,470)	(571,798)	

Note 26a Unusable Reserves

Unusable reserves 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").

	31st March 2020	31st March 2021
	£000	£000
Revaluation Reserve	(938,563)	(979,133)
Capital Adjustment Account	(1,004,281)	(1,016,057)
Financial Instruments Adjustment Account	20,288	19,668
Deferred Capital Receipts Reserve	(1,416)	(1,123)
Pensions Reserve	600,488	903,239
Collection Fund Adjustment Account	(2,138)	33,630
Accumulated Absences Account	7,844	8,577
Total Unusable Reserves	(1,317,778)	(1,031,199)

Note 26b Unusable Reserves (continued)

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment, heritage assets, assets held for sale 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 1st 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.

	2019/20	2020/21
	£000	£000
Balance at 1st April	(923,043)	(938,563)
Upward revaluation of assets	(115,818)	(94,956)
Downward revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services	41,257	29,524
(Surplus) or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(74,561)	(65,432)
Difference between fair value depreciation and historical cost depreciation	19,149	19,381
Accumulated gains on assets sold or scrapped	39,892	5,481
Balance at 31st March	(938,563)	(979,133)

Note 26c Unusable Reserves (continued)

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, heritage assets, assets held for sale and intangible assets before 1st 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.

	2019/20	2020/21
	£000	£000
Balance at 1st April	(1,066,605)	(1,004,281)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation & impairment	110,535	102,741
Revaluation (gain)/loss on Property, Plant and Equipment	15,686	(2,610)
Amortisation of intangible assets	660	660
Revenue expenditure funded from capital under statute	13,071	13,907
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	85,069	20,199
	(841,584)	(869,384)
Adjusting amounts written out of the Revaluation Reserve	(59,041)	(24,861)
Net written out amount of the cost of non-current assets consumed in the year	(900,625)	(894,245)
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	(20,806)	(14,691)
Use of the Major Repairs Reserve to finance new capital expenditure	(11,662)	(12,137)
Capital Grants, Contributions & Donated Assets credited to the Income and Expenditure Statement that have been applied to capital financing	(51,824)	(77,169)
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(11,771)	(13,035)
Voluntary provision for the financing of capital investment charged against the General Fund and HRA balances	-	(680)
Capital expenditure charged against the General Fund and HRA balances	(7,593)	(4,100)
Balance at 31st March	(1,004,281)	(1,016,057)

Note 26d Unusable Reserves (continued)

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 are 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.

	2019/20	2020/21
	£000	£000
Balance at 1st April	20,909	20,288
Proportion of premia incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	-	-
Proportion of discounts incurred in previous financial years to be credited to the General Fund Balance in accordance with statutory requirements	(621)	(620)
Balance at 31st March	20,288	19,668
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	(621)	(620)

Note 26e Unusable Reserves (continued)

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve (DCCR) 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.

	2019/20	2020/21
	£000	£000
Balance at 1st April	(1,298)	(1,416)
Transfer of deferred sale proceeds to the DCCR	(406)	-
Transfer to the Capital Receipts Reserve upon receipt of cash	288	293
Balance at 31st March	(1,416)	(1,123)

Note 26f Unusable Reserves (continued)

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 pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the 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.

	2019/20	2020/21
	£000	£000
Balance at 1st April	811,626	600,488
Remeasurement of the Net Defined Benefit Liability	(254,639)	277,823
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	90,716	74,699
Employer's pensions contributions and direct payments to pensioners payable in the year	(47,215)	(49,771)
Balance at 31st March	600,488	903,239

Note 26g&h Unusable Reserves (continued)

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.

	2019/20	2020/21
	£000	£000
Balance at 1st April	2,243	(2,138)
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	(4,381)	35,768
Balance at 31st March	(2,138)	33,630

	2019/20	2020/21
	£000	£000
Balance at 1st April	6,966	7,844
Settlement or cancellation of accrual made at the end of the preceding year	(6,966)	(7,844)
Amounts accrued at the end of the current year	7,844	8,577
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	878	733
Balance at 31st March	7,844	8,577

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 31st March each year). Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

Note 27 Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2019/20	2020/21
	£000	£000
Interest received	(3,207)	(2,851)
Interest paid	18,550	17,248
Net interest	15,343	14,397

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

	2019/20	2020/21
	£000	£000
Depreciation	(50,729)	(50,278)
Downward revaluations, impairment losses and reversal of prior year impairments	(78,978)	(51,476)
Amortisation	(660)	(660)
Increase / (decrease) in creditors	(7,894)	(33,621)
(Increase) / decrease in debtors	5,536	39,883
(Increase) / decrease in inventories	(285)	64
Movement in pension liability	(43,501)	(24,928)
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(79,233)	(17,288)
Other non-cash items charged to the net surplus or deficit on the provision of services	(5,174)	2,776
	(260,918)	(135,528)

Note 27 Cash Flow Statement - Operating Activities (continued)

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

	2019/20	2020/21
	£000	£000
Capital Grants credited to surplus or deficit on the provision of services	49,093	86,597
Proceeds from the sale of property plant and equipment, investment property and intangible assets	27,621	22,972
	76,714	109,569

Note 28 Cash Flow Statement Investment Activities

	2019/20	2020/21
	£000	£000
Purchase of property, plant and equipment and intangible assets	97,877	113,638
Purchase of short-term and long-term investments	1,095,650	700,900
Other payments for investing activities	5,971	-
Proceeds from sale of property, plant and equipment and intangible assets	(27,621)	(22,972)
Proceeds from short-term and long-term investments	(1,071,649)	(732,899)
Other receipts from investing activities	(49,231)	(79,743)
Net Cash Flows from Investing Activities	50,997	(21,076)

Note 29 Cash Flow Statement Financing Activities

	2019/20	2020/21
	£000	£000
Cash receipts of short and long-term borrowing	(56,625)	(33,100)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and PFI contracts	4,460	11,301
Repayments of short and long-term borrowing	33,705	53,368
Net Cash Flows from Financing Activities	(18,460)	31,569

Note 30 - Pooled Budgets

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

Supply of Integrated Community Equipment Loan Services (ICELS)

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 City Council contributed £0.62m (Adult Social Care contribution of £0.57m and Education contribution of £0.05m) to the pool during 2020/21 (£0.72m in 2019/20 of which Adult Social Care contributed £0.64m and Education contributed £0.08m) and this expenditure is also included in the Adult Social Care line and the Education of the Comprehensive Income and Expenditure Statement.

	2019/20	2020/21
	£000	£000
Funding provided to the pooled budget:		
Leicester City Council	715	615
Leicestershire County Council	1,224	1,162
Rutland County Council	72	66
Leicester City CCG	1,220	1,265
East Leicestershire and Rutland CCG	1,113	1,313
West Leicestershire CCG	1,138	1,474
Total Funding provided to the pooled budget	5,482	5,895
Total Expenditure met from the pooled budget	5,482	5,895

Note 30 Pooled Budgets (continued)

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 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. The grant is to be used for the purposes of meeting adult social care needs; reducing pressures on the NHS including supporting more people to be discharged from hospital when they are ready; and ensuring that the local social care provider market is supported.

It is a requirement of the BCF that the LCCCG and the LCC establish a pooled fund/budget for this purpose. The LCCCG acts as the host partner.

Details of the income and expenditure in the pool are provided in the table on the righthand side.

	2020/21
	£000
<u>Income</u>	
Revenue	
CCG Minimum Fund	25,250
Improved Better Care Fund (iBCF)	17,040
Additional CCG Contribution	3,500
Total Revenue Income	45,790
Capital-Disabled Facilities Grant	2,714
Total Income	48,504
<u>Expenditure</u>	
Revenue	
Actual Spend incurred by LCC managed schemes incl IBCF	33,783
Actual spend incurred by LCCCG & LPT (Leicestershire Partnership Trust) managed schemes	12,007
Total Revenue Expenditure	45,790
<u>Capital</u>	
Disabled Facilities Grant	2,714
Total Capital Expenditure	2,714
Total Expenditure	48,504
Revenue - Net outturn over/(under) spend:	-

Note 31 Members' Allowances

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

	2019/20	2020/21
	£	£
Basic Allowance Payments	590,821	597,404
Special Responsibility Payments	384,323	397,006
General Expense Payments	84,855	82,937
Total	1,059,999	1,077,347

Note 32 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 2020/21, 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 2020/21 with comparative data from 2019/20 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).

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	Pension Contributions	Compensation for loss of office	Total
		£	£	£	£
Chief Operating Officer (Head of Paid Service) (Note 1)	2020/21	157,347	36,875	-	194,222
	2019/20	139,838	32,653	-	172,491
Chief Operating Officer (Head of Paid Service) (Note 2)	2020/21	11,987	2,903	-	14,890
Director Delivery, Communications & Political Governance	2020/21	98,467	25,306	-	123,773
	2019/20	95,831	23,670	-	119,501
Director of Finance (Note 3)	2020/21	90,396	21,291	-	111,687
	2019/20	95,831	21,671	-	117,502
City Barrister & Head of Standards (Note 4)	2020/21	80,017	20,518	-	100,535
	2019/20	77,775	19,192	-	96,967
Strategic Director Social Care and Education (Note 5)	2020/21	132,441	34,037	-	166,478
	2019/20	13,129	3,243	-	16,372
Strategic Director - City Development & Neighbourhoods (Note 6)	2020/21	43,252	11,116	-	54,368
Director of Public Health	2020/21	98,467	14,160	-	112,627
	2019/20	96,420	13,865	-	110,285

Notes:

- 1) The Chief Operating Officer left the role on 31st March 2021
- 2) The new Chief Operating Officer took up the role on 1st March 2021
- 3) The Director of Finance left the role on 28th February 2021 to become Chief Operating Officer
- 4) The City Barrister works on a part-time basis
- 5) The Strategic Director –Social Care & Education took up the role on 2nd March 2020
- 6) The Strategic Director– City Development & Neighbourhoods took up the role on 1st December 2020

Note 32 Officers' Remuneration (continued)

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, the table excludes the senior officers listed in the previous table.

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) exceeded the £50k threshold. Further details of academies' higher paid employees are published by academies themselves or can be requested directly from academies under the Freedom of Information Act 2000.

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 includes 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	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
50,000-54,999	58	70	67	83	125	153
55,000-59,999	40	46	38	48	78	94
60,000-64,999	19	25	29	30	48	55
65,000-69,999	20	20	19	18	39	38
70,000-74,999	5	8	18	16	23	24
75,000-79,999	6	8	10	16	16	24
80,000-84,999	-	1	5	8	5	9
85,000-89,999	1	-	1	5	2	5
90,000-94,999	1	1	3	1	4	2
95,000-99,999	9	9	1	2	10	11
100,000-104,999	-	-	1	2	1	2
105,000-109,999	-	-	-	1	-	1
110,000-114,999	-	-	1	-	1	-
115,000-119,999	-	-	-	1	-	1
120,000-124,999	-	-	-	-	-	-
125,000-129,999	-	-	-	-	-	-
130,000-134,999	-	-	-	-	-	-
Total	159	188	193	231	352	419

Note 33 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:

	Restated 2019/20 £000	2020/21 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	150	150
Fees payable for the certification of grant claims and returns for the year	54	54
Fees payable in respect of other services provided during the year	11	11
Total	215	215

Note 34 Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, 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 School Finance and Early Years (England) Regulations 2017. The Schools' Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools' Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2020/21 are as follows:

2020/21	Central Expenditure	Individual Schools Budget	Total
	£000	£000	£000
Final DSG for 2020/21 before Academy recoupment			346,578
Academy figure recouped for 2020/21	-	-	(120,035)
Total DSG after Academy recoupment for 2020/21			226,543
Brought forward from 2019/20	-	-	5,577
Agreed initial budgeted distribution in 2020/21	87,005	145,115	232,120
In year adjustments	(150)	-	(150)
Final budgeted distribution for 2020/21	86,855	145,115	231,970
Actual central expenditure for the year	(85,422)	-	(85,422)
Actual ISB deployed to schools	-	(145,115)	(145,115)
Local Authority contribution for 2020/21	-	-	-
Carry forward to 2021/22	1,433	-	1,433

2019/20	Central Expenditure	Individual Schools Budget	Total
	£000	£000	£000
Final DSG for 2019/20 before Academy recoupment			324,959
Academy figure recouped for 2019/20			(107,452)
Total DSG after Academy recoupment for 2019/20			217,507
Brought forward from 2018/19			8,210
Agreed initial budgeted distribution in 2019/20	85,855	139,862	225,717
In year adjustments	(33)		(33)
Final budgeted distribution for 2019/20	85,822	139,862	225,684
Actual central expenditure for the year	(80,245)	-	(80,245)
Actual ISB deployed to schools	-	(139,862)	(139,862)
Carry forward to 2020/21	5,577	-	5,577

Note 35 Grant Income

Capital grants recognised in the year

The Council received the following capital grants in 2020/21.

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.

	2019/20	2020/21
	£000	£000
Credited to Services (All REFCUS related)		
DFE Basic Need Grant	3,935	8,579
Devolved Formula Capital Grant	2,692	1,134
Disabled Facilities Grant	1,563	992
ERDF Growth Hub	-	384
DFT Cleaner Bus Technology Grant	-	242
Other	-	38
Collaborate Business Grants	217	-
Total Credited to Services	8,407	11,369
	2019/20	2020/21
	£000	£000
Credited to Taxation & Non-Specific Grant Income		
Salix Grant	-	24,314
Getting Building Fund	-	7,821
Other DFT Grants	4,170	6,192
Local Growth Fund	4,665	5,986
Homes England Grant	1,412	5,746
Green Homes Grant	-	4,390
DFT Transforming Cities Fund	1,624	4,112
DFE Capital Maintenance Grant	2,827	3,697
S106 Contributions	2,535	3,142
DFT Integrated Transport Grant	2,556	2,556
DFT Maintenance Grant	2,102	2,540
DFE SEND Funding	-	2,148
DFE Basic Need Grant	11,243	1,279
Disabled Facilities Grant	-	869
Other	515	236
ERDF Low Carbon Projects	1,812	200
DFE Devolved Capital Formula Grant	925	-
Total Credited to Taxation & Non-Specific Grant Income	36,386	75,228

Note 35 Grant Income (continued)

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:

	2019/20	2020/21
	£000	£000
Capital Grants Receipts in Advance		
DFE Basic Need Grant	7,252	-
Devolved Formula Capital Grant	4,811	4,376
S106 Contributions	1,549	935
Land Release Fund	-	850
DFT Transport Grants	-	435
DFT Breathe Grants	184	184
Total Capital Grants Receipts in Advance	13,796	6,780
Capital Receipts not Recognised (deposits)	88	40
Total Received in Advance	13,884	6,820

Note 35 Grant Income (continued)

Revenue grants recognised in the year

The Council received the following revenue grants in 2020/21.

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.

There are a number of grants marked as other Covid-19 grants, which were received as a consequence of the pandemic. These include grants for testing, infection control, contain outbreak management, support to the clinically vulnerable, support to schools, bus operators and travel schemes.

	2019/20	2020/21
	£000	£000
Credited to Taxation & Non-Specific Grant Income		
Revenue Support Grant	-	28,870
Covid-19 Collection Fund Compensation Grants	-	25,720
Covid-19 LA Support Grant	-	22,703
Business Support Grants	-	20,000
Covid-19 Grants- Sales, Fees & Charges Compensation Scheme	-	11,781
Section 31 Grants	10,216	11,243
Social Services Support Grant	2,689	9,988
New Homes Bonus Scheme	6,858	5,922
Covid-19 Grants- Council Tax Hardship Fund		3,738
Other Covid-19 Grants		1,129
Other	4,773	-
Total Credited to Taxation & Non-Specific Grant Income	24,536	141,094
Credited to Services		
Children's and Education Services		
Dedicated Schools Grant (see note 34)	217,507	226,543
Other Education	27,671	29,823
Pupil Premium	11,621	11,297
Other Covid-19 Grants	-	1,873
Adults and Housing		
Improved Better Care Fund	15,467	17,040
Other Covid-19 Grants	-	8,946
Other Adult Social Care	2,189	2,187
Public Health		
Public Health Grant	26,117	27,202
Other Public Health	140	134
City Development, Neighbourhoods & Housing		
Other City Development, Neighbourhoods & Housing	11,590	12,872
Waste PFI	2,074	2,074
Other Covid-19 Grants	-	1,026
Corporate and Resources		
Housing Benefit Subsidies	93,129	85,433
Other Covid-19 Grants	-	18,066
Other Corporate and Resources	2,353	2,663
Housing Benefit & Council Tax Benefit Admin Grant	1,264	1,399
Waste PFI	517	517
Local Council Tax Support Admin Grant	461	466
Elections	955	224
Total Credited to Services	413,055	449,785
Total Recognised in Year	437,591	590,879

Note 35 Grant Income (continued)

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:

	2019/20	2020/21
	£000	£000
Adult Social Care		
Other Adult Social Care	-	338
City Development, Neighbourhoods & Housing		
City Development, Neighbourhoods & Housing	202	252
Taxation & Non Specific Grant Income		
Section 31 Grants	11,243	-
Total Receipts in Advance	11,445	590

Note 36 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.

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 35 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 31. Remuneration of senior officers is detailed in Note 32.

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.

The Council itself, 15 Members of the Council and 7 senior officers sit (either in a personal capacity or as representatives of the Council) on the governing bodies of 24 different organisations. The Council made a total of £2.7m in payments to eighteen of these organisations, primarily in the form of grants, works or services. All payments are made with proper consideration of declaration of interest. The relevant members did not take part in any discussion or decision relating to the payments. In addition a total of £1.5m was received from fifteen of the organisations, primarily relating to services provided by the Council and interest on an outstanding loan balance.

A balance of £2.4m is outstanding on a loan made to Leicestershire County Cricket Club, the interest rate is at market rate terms.

Details of members' interests are recorded in the Register of Members' Interest open to public inspection at the Town Hall during office hours.

Leicester & Leicestershire Enterprise Partnership (LLEP)

The Council is the accountable body for LLEP. A member of the Council and 2 senior officers from the council sit on various boards, along with representatives from Leicestershire County Council, Leicestershire district councils, the private sector, voluntary sector, government and education sector.

The Council made total payments of £0.2m to the LLEP, in the form of contributions and interest payments due on the balances that the Council holds on their behalf. In addition £14.3m was received, £14.1m from the LLEP relates to grants and £0.2m for the provision of services. These are not included in the related party transactions above.

At 31st March 2021 the council held a balance of £18.2m on behalf of the LLEP.

Note 37 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 upfront to support all government funded 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 external borrowing to the Council

Where capital expenditure is not financed by grant or revenue, 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.

	2019/20	2020/21
	£000	£000
Opening Capital Financing Requirement	560,588	575,632
Capital Investment		
Property, Plant and Equipment	101,524	122,950
Intangible Assets	731	1,806
Heritage Assets	83	381
Revenue Expenditure Funded from Capital Under Statute	13,071	13,907
Capital Loans Expenditure	3,287	-
De Minimis Capital Spend	4	8
Sub-total	118,700	139,052
Sources of Finance		
Capital Receipts	(20,806)	(14,691)
Government Grants & Other Contributions	(51,824)	(77,169)
Sums set aside from revenue:		
Direct Revenue Contributions	(19,255)	(16,237)
(MRP/Loans Fund Principal)	(11,771)	(13,035)
Voluntary provision of financing	-	(680)
Sub-total	(103,656)	(121,812)
Closing Capital Financing Requirement	575,632	592,872
Increase/(Decrease) in underlying need to borrowing	11,067	13,864
HRA CFR adjustment	(138)	(138)
Assets acquired under Finance Leases	1,852	-
Assets acquired under PFI contracts	2,263	3,514
Increase/(Decrease) in Capital Financing Requirement	15,044	17,240

Note 38 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 2020 £000	31st March 2021 £000
Other Land and Buildings	4,685	9,031
Vehicles, Plant and Equipment	627	468
Total	5,312	9,499

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 2020 £000	31st March 2021 £000
Finance lease liabilities	9,040	8,816
Finance costs payable in future years	18,198	17,766
Total minimum lease payments	27,238	26,582

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31st March 2020 £000	31st March 2021 £000	31st March 2020 £000	31st March 2021 £000
Within one year	657	655	224	233
Within 2 to 5 years	2,689	2,722	804	614
Later than 5 years	23,892	23,205	8,012	7,969
Total	27,238	26,582	9,040	8,816

Note 38 Leases (continued)

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:

Council as Lessor

Finance Leases

The council has leased out a number of properties on finance leases, two of which are on peppercorn annual payments. The following tables show the lease debtors and lease payments for the remainder:

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

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.

	31st March 2021
	£000
Not later than one year	849
Later than one year and not later than 5 years	2,515
Later than 5 years	4,713
Total	8,077

	31st March 2021
Finance Lease Debtor	£000
Current	29
Non-current	1,019
Unearned finance income	1,692
Gross Investment in the lease	2,740

	31st March 2021
Minimum Lease Payments	£000
Within one year	96
Within 2 to 5 years	385
Later than 5 years	2,259
Total	2,740

Note 38 Leases (continued)

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:

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.

	31st March 2020	31st March 2021
	£000	£000
Not later than one year	4,836	4,406
Later than one year and not later than 5 years	13,384	13,259
Later than 5 years	79,090	75,221
Total	97,310	92,886

Note 39 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.

2020/21 was the eighteenth year of the operation of the contract, costing £15m (£14.8m in 2019/20).

Property Plant and Equipment

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

	Other Land & Buildings	Vehicles, & Equipment	Total
	£000	£000	£000
Balance at 1st April 2020	10,278	2,318	12,596
Additions	-	3,514	3,514
Depreciation	(1,285)	(590)	(1,875)
Revaluation	(141)	-	(141)
Balance at 31st March 2021	8,852	5,242	14,094

Note 39 Private Finance Initiatives and Service Concession Arrangements (continued)

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 31st March 2021 (excluding future inflation) are as follows:

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 are shown in the table.

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Lifecycle Capital Replacement costs	Total
	£000	£000	£000	£000	£000
Within 1 year	6,640	747	504	1,377	9,268
Within 2 to 5 years	33,416	3,508	2,730	6,464	46,118
Within 6 to 10 years	7,402	715	155	1,318	9,589
Total	47,457	4,970	3,389	9,158	64,975

	2019/20	2020/21
	£000	£000
Balance outstanding at 1st April	3,239	3,515
Payments during the year	(1,987)	(2,060)
Additions	2,263	3,514
Balance at 31st March	3,515	4,969

Note 39 Private Finance Initiatives and Service Concession Arrangements (continued)

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 BSF Company 1 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). At the end of the contract, as

things stand, all assets will revert to Council control. Under the Government's current policies the trend of more schools becoming academies is likely to continue. If any PFI schools convert, the Council will continue to make payments under this contract from a combination of PFI credits and contributions from schools. At conversion the assets would transfer to the

academy, subject to the on-going provisions of the PFI contract. The rebuild for phase 1 was completed in 2009 and 2020/21 was therefore the twelfth year of the operation of the contract costing £6.7m.

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:

	Other Land & Buildings
	£000
Balance at 1st April 2020	37,200
Additions	2,542
Revaluations	381
Depreciation	(930)
Balance at 31st March 2021	39,193

Note 39 Private Finance Initiatives and Service Concession Arrangements (continued)

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 31st March 2021 are as follows:

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Lifecycle Capital Replacement Costs	Total
	£000	£000	£000	£000	£000
Within 1 year	2,390	1,148	2,365	826	6,729
Within 2 to 5 years	10,247	5,579	8,353	3,699	27,878
Within 6 to 10 years	14,563	9,320	7,232	6,624	37,739
Within 11 to 15 years	10,293	10,289	1,978	1,253	23,813
Total	37,493	26,336	19,928	12,402	96,159

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 shown:

	2019/20	2020/21
	£000	£000
Balance outstanding at 1st April	27,976	27,279
Payments during the year	(697)	(943)
Balance at 31st March	27,279	26,336

Note 39 Private Finance Initiatives and Service Concession Arrangements (continued)

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

On 31st March 2012 the City Council committed to a new joint PFI project scheme for the rebuilding of Crown Hills and City of Leicester Community Colleges. The Council is contracted to Leicester BSF Company 2 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. Under the Government's current policies the trend of more schools becoming academies is likely to continue. If any PFI schools convert, the Council will continue to make payments under this contract from a combination of PFI credits and contributions from schools. At conversion assets would transfer to the

academy, subject to the on-going provisions of the PFI contract. 2020/21 was the eighth year of the operation of the contract costing £6.6m.

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 as shown:

	Other Land & Buildings £000
Balance at 1st April 2020	64,881
Additions	5,243
Revaluations/(Impairment)	2,174
Depreciation	(1,562)
Balance at 31st March 2021	70,736

Note 39 Private Finance Initiatives and Service Concession Arrangements (continued)

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 31st March 2021 are as follows:

	Payment for Services	Reimbursement of Capital	Interest	Lifecycle Capital Replacement	Total
	£000	£000	£000	£000	£000
Within 1 year	2,593	1,308	2,416	683	7,000
Within 2 to 5 years	11,120	4,859	8,747	4,711	29,437
Within 6 to 10 years	15,751	9,124	8,779	5,165	38,819
Within 11 to 15 years	18,102	11,869	5,297	7,111	42,379
Within 16 to 20 years	10,409	8,022	939	3,894	23,264
Total	57,975	35,182	26,177	21,564	140,898

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

	2019/20	2020/21
	£000	£000
Balance outstanding at 1st April	37,919	36,614
Payments during the year	(1,305)	(1,432)
Balance at 31st March	36,614	35,182

Note 39 Private Finance Initiatives and Service Concession Arrangements (continued)

District Energy Heating & Combined Heat Power Scheme

On 14th 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 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.

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 31st March 2021 are shown in the table:

	Vehicles, Plant & Equipment
	£000
Balance at 1st April 2020	7,342
Depreciation	(408)
Balance at 31st March 2021	6,934

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 31st March 2021 (excluding future inflation increases and the final phase which has yet to be completed) are as follows:

	Payment for Services	Reimbursement of Capital	Interest	Lifecycle Capital Replacement	Total
	£000	£000	£000	£000	£000
Within 1 year	1,793	218	835	215	3,061
Within 2 to 5 years	7,172	1,113	3,098	860	12,243
Within 6 to 10 years	8,965	2,143	3,121	1,076	15,305
Within 11 to 15 years	8,965	3,450	1,814	1,076	15,305
Within 16 to 20 years	3,591	1,411	206	323	5,531
Within 21 to 25 years	833	20	3	-	856
Total	31,319	8,355	9,077	3,550	52,301

Note 39 Private Finance Initiatives and Service Concession Arrangements (continued)

Liability

The liability outstanding to the contractor for capital expenditure incurred up to 31st March 2021 is as per the following table:

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.

	2019/20	2020/21
	£000	£000
Liability for capital expenditure incurred for operational phases	8,357	8,095
Payments during the year	(262)	(286)
Balance at 31st March	8,095	7,809

Note 40 Termination Benefits

The Council terminated the contracts of a number of employees in 2020/21 incurring liabilities of £0.3m (£1.7m in 2019/20). Of this £0.2m (£0.9m in 2019/20) was for redundancy and other departure costs, and £15k (£0.9m in 2019/20) 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 and cost of exit packages are set out in the table below. In 2020/21 the Council approved 12 compulsory redundancies (44 in 2019/20).

Band	Total number of exit packages by cost band	Total Cost of Exit packages 2019/20	Total number of exit packages by cost band	Total Cost of Exit packages 2020/21
£	2019/20	£	2020/21	£
0 - 20,000	59	427,186	17	159,326
20,001 - 40,000	10	306,333	2	46,663
40,001 - 60,000	8	396,842	1	50,523
60,001 - 80,000	6	421,226	-	-
80,001 - 100,000	2	168,041	-	-
Total	85	1,719,628	20	256,512

Note 41 Pension Schemes Accounted for as Defined Contribution Schemes

Teachers' Pensions

Teachers employed by the Council are eligible to be members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers 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 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. For the purposes of the Statement of Accounts, it is accounted for on the same basis as a defined contribution scheme. Under this treatment, the council has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The Council's obligation is limited to the amount that it has agreed to contribute to the fund and in consequence, actuarial risk and investment risk fall on the employee.

In 2020/21, the Council paid £17.7m to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.68% of pensionable pay. The figures for 2019/20 were £15.5m and 20.66%. The employer rate was increased to 23.68% from September 2019, however additional funding has been provided by central government to fund this increase.

The Council 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 42.

Public Health

Certain public health employees remain members of the NHS pension scheme. 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. For the purposes of the Statement of Accounts, it is accounted for on the same basis as a defined contribution scheme. Under this treatment, the council has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The Council's obligation is limited to the amount that it has agreed to contribute to the fund and in consequence, actuarial risk and investment risk fall on the employee.

In 2020/21, the Council paid £0.1m to the NHS Pension Scheme in respect of former NHS staff retirement benefits representing 14.38% of pensionable pay. The employer contribution increased to 20.6% from 1st April 2019, however the increase is paid to the scheme by NHS England.

Note 42 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 need to be disclosed at the time that employees earn their future entitlement.

The accounts have been prepared on the basis of the actuary's updated IAS19 valuation report dated 12th May 2021.

The Council participates in three post-employment pension schemes:

- Teachers' Pensions Scheme – see Note 41 for further information
- NHS Pension Scheme – see Note 41 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.

Note 42 Defined Benefit Pension Schemes (continued)

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 in the accounts 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.

	2019/20	2020/21
	£000	£000
Comprehensive Income and Expenditure Statement		
<u>Cost of Services</u>		
Current service cost	77,144	60,771
Past service cost	272	1
Settlements and curtailments	(6,453)	-
Total Service Cost	70,963	60,772
Financing and Investment Income and Expenditure		
Expected return on scheme assets	(32,415)	(28,757)
Interest cost	52,168	42,684
Net Interest Cost	19,753	13,927
Total Post-employment Benefit charged to the (Surplus) or Deficit on the Provision of Services	90,716	74,699
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement		
Return on plan assets excluding amounts included in net interest	138,267	(251,021)
Actuarial (gains)/losses arising from changes in demographic assumptions	(66,409)	29,840
Actuarial (gains)/losses arising from changes in financial assumptions	(201,638)	514,408
Other Experience adjustments	(124,859)	(15,404)
Total remeasurements recognised in the Comprehensive Income and Expenditure Statement	(254,639)	277,823
Total post-employment Benefit charged to the Comprehensive Income and Expenditure statement	(163,923)	352,522
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits	90,716	74,699
Actual amount charged against the General Fund Balance for pensions in the year (Employers contributions paid to the scheme)	(47,215)	(49,771)
Total Movement in Reserves	43,501	24,928

Note 42 Defined Benefit Pension Schemes (continued)

Assets and Liabilities in Relation to Post-employment Benefits

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

	2019/20	2020/21
	£000	£000
Balance at 1st April	2,160,400	1,845,164
Current service cost	77,144	60,771
Past service costs (including curtailments)	272	1
Effect of settlements	(12,857)	-
Interest cost	52,168	42,684
Contributions by scheme participants	11,081	11,575
Benefits paid	(50,138)	(48,287)
Remeasurements arising from changes in financial assumptions	(201,638)	514,408
Remeasurements arising from changes in other assumptions	(124,859)	(15,404)
Remeasurements arising from changes in demographic assumptions	(66,409)	29,840
Balance at 31st March	1,845,164	2,440,752

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

	2019/20	2020/21
	£000	£000
Balance at 1st April	1,348,774	1,244,676
Interest income	32,415	28,757
Effect of settlements	(6,404)	-
Contributions by scheme participants	11,081	11,575
Employer contributions	47,215	49,771
Benefits paid	(50,138)	(48,287)
Return on plan assets excluding amounts included in net interest	(138,267)	251,021
Balance at 31st March	1,244,676	1,537,513

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.

Note 42 Defined Benefit Pension Schemes (continued)

Scheme History

	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000
Present value of funded obligations	(1,812,582)	(1,857,800)	(2,108,019)	(1,799,983)	(2,390,572)
Present value of unfunded obligations	(54,424)	(51,855)	(52,381)	(45,181)	(50,180)
Fair value of assets in the scheme	1,211,556	1,275,624	1,348,774	1,244,676	1,537,513
Surplus/(deficit) in the scheme	(655,450)	(634,031)	(811,626)	(600,488)	(903,239)

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 £2,441m has a substantial impact on the net worth of the Council as recorded in the balance sheet, resulting in a negative overall balance of £903.2m. 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 31st March 2022 is £48.6m. The maturity profile is as follows:

	Liability Split	Weighted Average Duration
Active members	50.0%	26.0
Deferred members	21.0%	26.0
Pensioner members	29.0%	11.7
Total	100.0%	

Note 42 Defined Benefit Pension Schemes (continued)

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 31st March 2019.

The main assumptions used by the actuary have been:

Local Government Pension Scheme	2019/20	2020/21
Mortality assumptions:		
Longevity at 65 for current pensioners (years):		
Men	21.5	21.7
Women	23.8	24.2
Longevity at 65 for future pensioners (years):		
Men	22.2	22.6
Women	25.2	25.9
Benefit entitlement assumptions		
Rate of increase in salaries	2.4%	3.4%
Rate of increase in pensions	1.9%	2.9%
Rate for discounting scheme liabilities	2.3%	2.0%
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%

Note 42 Defined Benefit Pension Schemes (continued)

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

	2019/20				2020/21			
	Quoted Prices in Active Markets	Quoted Prices not in Active Markets	Total	Percentage of Total	Quoted Prices in Active Markets	Quoted Prices not in Active Markets	Total	Percentage of Total
	£000	£000	£000	Assets	£000	£000	£000	Assets
Equity								
Consumer	3,184		3,184	0%	3,933		3,933	0%
Manufacturing	933		933	0%	1,152		1,152	0%
Energy and Utilities	2,617		2,617	0%	3,233		3,233	0%
Financial Institutions	3,949		3,949	0%	4,878		4,878	0%
Health and Care	916		916	0%	1,132		1,132	0%
Information Technology	1,048		1,048	0%	1,295		1,295	0%
Other	9,025		9,025	1%	11,148		11,148	1%
Debt Securities								
UK Government	105,190	198	105,388	8%	129,938	245	130,182	8%
Other	16,120		16,120	1%	19,912		19,912	1%
Private Equity								
All		57,396	57,396	5%		70,900	70,900	5%
Real Estate								
UK Property		93,030	93,030	7%		114,918	114,918	7%
Investment Fund and Unit Trusts								
Equities	499,905		499,905	40%	617,519		617,519	40%
Bonds	52,595		52,595	4%	64,969		64,969	4%
Hedge Funds	104		104	0%	128		128	0%
Commodities		44,022	44,022	4%		54,379	54,379	4%
Infrastructure		65,461	65,461	5%		80,862	80,862	5%
Other	124,596	128,682	253,278	20%	153,910	158,957	312,867	20%
Derivatives								
Foreign Exchange	(1,582)	-	(1,582)	0%	(1,954)		(1,954)	0%
Cash and Cash Equivalents								
All	37,287	-	37,287	3%	46,060		46,060	3%
Total	855,887	388,789	1,244,676	100%	1,057,254	480,260	1,537,513	100%

Note 42 Defined Benefit Pension Schemes (continued)

Sensitivity Analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below.

Changes in assumptions at 31st March 2021	Approximate % increase to Defined Benefit Obligation	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	10%	252,263
0.5% increase in the Salary Increase Rate	1%	23,164
0.5% increase in the Pension Increase Rate	9%	223,907

The sensitivity figures above can be used to estimate the impact of adopting different financial assumptions. In order to qualify the impact of a change in the financial assumptions used, the value of the scheme liabilities have been calculated at the accounting date on varying bases.

Note 43 Contingent Liabilities

The Council has no contingent liabilities to disclose in the 2020/21 accounts.

Note 44 Contingent Assets

The council has no contingent assets to disclose in the 2020/21 accounts.

Note 45 Nature and Extent of Risks arising from Financial Instruments

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

- 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.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk Management is carried out by the Treasury Management team under the policies approved by Council in the Treasury Management Strategy.

Note 45 Nature and Extent of Risks arising from Financial Instruments (continued)

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 opposite.

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	£100m
	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
Repurchase Agreements (REPO)	1 year	To be no less secure than a deposit	£20m	Included in above

Note 45 Nature and Extent of Risks arising from Financial Instruments (continued)

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 & Bonds	Local authority	6 Years	None required	£20m	£300m
Bonds	Local Government Bonds Agency	6 Years	A long term rating of AA-	£20m	
Bonds, Bills and Deposits	UK Public Sector & Quasi-Public Sector	6 Years	A long term rating of AA-	£20m	£40m
Deposits and Treasury Bills	UK Government / UK Government Guarantee	Unlimited	None required	Unlimited	Unlimited
Bonds	International Development Banks	6 Years	A long term rating of AA- plus backing of one or more G7 countries.	£10m	£40m
Money Market Funds, Money Market Plus Funds and Short-Dated Bond Funds	Various Fund Managers, including funds shaped by local authorities acting collectively	Up to 1 month Advice taken from Treasury Advisors	AAAmmf Or AAf	£20m	£180m of which no more than £30m in property funds and no more than £50m in longer dated funds and funds investing in Asset Based Securities
Longer dated Bond Funds and funds investing in Asset Based Securities	Various Fund Managers	Up to 1 month Advice taken from Treasury Advisors	AAf	£10m	
Property Funds	Various Fund Managers	Investments can be sold in market.	Not Applicable	£10m	

Note 45 Nature and Extent of Risks arising from Financial Instruments (continued)

The credit 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 £69m as at 31st March 2021 (£73m as at 31st March 2020) 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 31st March 2020 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 £198m (£200m as at 31st March 2020). Such investments are assessed to be virtually risk free.

As a result of loan repayments in 20/21 and having already made prudent provision in 19/20, the Council has only recognised credit impairments of £0.01m in 2020/21, based on historical experience and market conditions at 31st March 2021. There were credit impairments of £1.5m in 2019/20.

Note 45 Nature and Extent of Risks arising from Financial Instruments (continued)

The value of the Council's receivables classified as financial instruments on the Balance Sheet as at 31st March 2021 was £17.9m (£16.9m as at 31st March 2020). The following matrix is used for both 2019/20 and 2020/21 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%
Four Months to Six Months	25%
Seven Months to Nine Months	50%
Ten Months to One Year	75%
One Year to Two Years	80%
Over Two Years	100%

It is estimated that the uncollectable amount on commercial and personal debts outstanding as at 31st March 2021 will be £9.0m (£8.1m as at 31st March 2020) and that the impaired value of these debts are £8.9m (£8.8m as at 31st March 2020).

The following table shows current receivables analysed by age, and the impaired value after allowing for default, credit losses 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. Notwithstanding the carrying amount as reported on the balance sheet has been reduced to account for impairment in line with the code.

	31st March 2020		31st March 2021	
	Due	Impaired Value	Due	Impaired Value
	£000	£000	£000	£000
Less than 3 months	6,656	6,430	6,246	6,052
Three to six months	1,933	1,450	1,765	1,324
Six months to one year	1,599	608	2,477	1,105
More than one year	6,724	265	7,461	428
Total	16,912	8,753	17,949	8,909

Note 45 Nature and Extent of Risks arising from Financial Instruments (continued)

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 2020 £000	31st March 2021 £000
Not over 1	39,047	19,044
Over 1 but not over 2	5,065	5,608
Over 2 but not over 5	15,108	15,285
Over 5 but not over 10	24,682	25,879
Over 10 but not over 20	42,557	38,449
Over 20 but not over 30	31,023	30,576
Over 30	165,080	165,041
Total	322,562	299,882

The Council has £20m 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.

Note 45 Nature and Extent of Risks arising from Financial Instruments (continued)

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 “amortised cost” 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 “Other” will be reflected in Comprehensive Income and Expenditure.

The accounting arrangements for “Lenders Option, Borrowers Option” (LOBO) loans is more complex. These are loans where the lender has a periodic option to propose an increase in the rate of interest payable on the loan and the borrower has the option to decline this increase and to repay. In the event that an increase was accepted the carrying amount of the loan is recalculated and the increase in the carrying amount of the loan will reflect the net present value of the increase in interest payments in future years. The increase in the carrying amount of the loan will be accounted for as an immediate charge to the Comprehensive Income and Expenditure. In simple terms, a relatively small increase in the annual interest payable will be accounted for as a far larger sum once the net present value of all future increases is calculated.

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:

	£000
Increase in interest receivable on variable rate investments	692
Increase in interest receivable on short term investments	115
Increase in interest payable on variable rate loans	(123)
Impact on Surplus or Deficit on the Provision of Services	684
Decrease in fair value of available for sale financial assets	0
Impact on Comprehensive Income and Expenditure	0
Decrease in fair value of loans and receivables *	597
Decrease in fair value of fixed rate borrowings/liabilities *	60,375

*No impact on Comprehensive Income and Expenditure

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

Note 45 Nature and Extent of Risks arising from Financial Instruments (continued)

c) Market Risks

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.

The market price of the Council's property fund investments are determined by the market prices of the underlying property assets owned by the funds. The impact of the 5% fall in value of the property fund value would be a reduction in value of £373k. The Council's intention is to hold these investments over the medium term and not to crystallise these losses by selling.

Foreign Exchange Risk

The Council has no exposure to foreign exchange risk.

Supplementary Financial Statements & Explanatory Notes

Housing Revenue Account

Housing Revenue Account (HRA) Statements - Income and Expenditure

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.

2019/20		2020/21	
£000		Note	£000
Income			
(72,938)	Dwelling Rents	5	(73,292)
(391)	Non-dwelling Rents	6	(354)
(5,612)	Service Charges	6	(5,787)
(714)	Contributions & Miscellaneous income		(454)
(79,655)	Total Income		(79,887)
Expenditure			
12,122	General Management		12,037
13,415	Special Management	3	12,860
29,419	Repairs & Maintenance		27,985
1,302	Rent, Rates, Taxes & Other Charges		1,497
46	Increase/ (Decrease) in Bad Debt Provision	4	222
26,551	Depreciation & Impairment of Fixed Assets	12	27,950
60	Debt Management Expenses		60
82,915	Total Expenditure		82,611
710	HRA share of Corporate & Democratic Core		710
3,970	"HRA Comprehensive Income and Expenditure Line"		3,434
3,970	Net Cost of HRA Services		3,434
3,331	(Gain) or Loss on Sale of HRA Assets		2,448
8,739	Loan Charges - Interest		8,840
(579)	Investment Interest		(496)
5,198	Pensions - Interest on Liabilities	14	4,263
(3,229)	Pensions - Expected Return on Assets	14	(2,872)
17,430	(Surplus) / Deficit for the Year		15,617

Housing Revenue Account (HRA) Statements - Movement in Reserve

2019/20		2020/21	
£000		Note	£000
17,430	(Surplus) / Deficit for the Year (from above)		15,617
<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>			
359	Amounts charged to the HRA for amortisation of Premia and Discounts for the year determined in accordance with statute		359
(5,241)	HRA share of contributions to/(from) the Pension Reserve	14	(2,743)
(3,331)	Gain or (Loss) on Sale of HRA Fixed Assets		(2,448)
(26,551)	Depreciation and capital expenditure not adding value for Fixed Assets	12	(27,950)
2,903	Capital Expenditure Financed from Revenue Account	10	1,707
355	HRA Set-Aside (MRP)		666
11,662	Transfers to/(from) the Major Repairs Reserve	13	12,137
97	Transfers to/(from) the Employee Benefits Reserve		(277)
(19,747)	Total value of items reversed as part of determining the statutory movement on the Housing Revenue Account Balance		(18,549)
(2,317)	Net (Surplus)/Deficit on the Housing Revenue Account in the year		(2,932)
(30,508)	Balance Brought Forward 1st April 2020		(32,825)
(32,825)	Balance Carried Forward 31st March 2021		(35,757)

Housing Revenue Account (HRA) Explanatory Notes

1. Housing Revenue Account

The rules for the Housing Revenue Account (HRA) are specified within the Local Government and Housing Act 1989. Additionally a suite of self-financing determinations was issued by the Ministry of Housing, Communities and Local Government (MHCLG) in 2012, including the Item 8 Credit and Item 8 Debit determinations which set out the capital accounting and financing entries under the 1989 Act.

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

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 31st March 2021 was £1.0m (£0.8m at 31st March 2020). This is calculated on a rent and service charge arrears balance of £3.2m (£3.6m in 2019/20).

5. Net Rent Income from Dwellings

	2019/20	2020/21
	£000	£000
Total Rent income from Dwellings	72,938	73,292
Less Housing Benefit	(33,200)	(30,311)
Total	39,738	42,981

6. Non -Dwelling Rents and Service Charges

These include the charges made to tenants and leaseholders for district heating, garages, security and cleaning services to flats.

Housing Revenue Account (HRA) Explanatory Notes (continued)

7. Housing Stock

Changes to Housing Stock:

	2019/20	2020/21
Number of Dwellings at 1st April	20,366	20,142
Construction of new dwellings	-	29
Acquisitions	184	109
Right to Buy sales	(409)	(204)
Other Disposals	1	(10)
Number of Dwellings at 31st March	20,142	20,066

8. Value of HRA Assets

	31st March 2020	31st March 2021
	£000	£000
Dwellings	1,001,516	1,062,545
Other Land and Buildings	20,136	20,032
Vehicles, Plant, Furniture & Equipment	181	87
Surplus Assets	283	283
Intangible Assets	300	58
Total	1,022,416	1,083,005

Housing Revenue Account (HRA) Explanatory Notes (continued)

9. Vacant Possession Value of Council Dwellings

The vacant possession value of council dwellings at 31st March 2021 was £2.5bn. At the same date the balance sheet value of council dwellings was £1.1bn. The difference of £1.4bn 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 2020	31st March 2021
	£000	£000
Vacant possession values	2,383,539	2,529,861

10. Capital Expenditure

HRA capital expenditure on land, houses and other property in 2020/21 totalled £42m, financed as follows:

	2019/20	2020/21
	£000	£000
Major Repairs Reserve	11,662	12,137
Use of borrowing	13,387	13,622
Usable capital receipts	15,348	14,178
Financing from revenue account	2,903	1,707
Total	43,300	41,644

11. Capital Disposals

HRA capital disposals in 2020/21 were as follows:

	2019/20	2020/21		
	Total Receipt	Usable/ Retained	Pooled/ Set aside	Total Receipt
	£000	£000	£000	£000
Right to Buy (RTB) sales	(19,552)	(6,261)	(4,295)	(10,556)
Total	(19,552)	(6,261)	(4,295)	(10,556)

Housing Revenue Account (HRA) Explanatory Notes (continued)

12. Depreciation and capital expenditure not adding value for Fixed Assets

A breakdown of the depreciation and capital expenditure not adding value charges are provided in the table below:

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.

	2019/20			2020/21		
	Depreciation	Capital expenditure not adding value	Total	Depreciation	Capital expenditure not adding value	Total
	2019/20 £000	2019/20 £000	2019/20 £000	2020/21 £000	2020/21 £000	2020/21 £000
Dwellings*	10,355	14,047	24,402	10,884	14,865	25,749
Other Land and Buildings	535	419	954	541	410	951
Vehicles, Plant, Furniture & Equipment	528		528	466	-	466
Surplus Assets	2	(43)	(41)	4	(4)	-
Intangible Assets	242	466	708	242	542	784
Total	11,662	14,889	26,551	12,137	15,813	27,950

Housing Revenue Account (HRA) Explanatory Notes (continued)

13. Use of Major Repairs Reserve

	2019/20	2020/21
	£000	£000
Balance at 1st April	-	-
Depreciation credited	(11,662)	(12,137)
Capital expenditure on land, houses and other property	11,662	12,137
Balance at 31st March	-	-

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 42 to the core financial statements.

	2019/20	2020/21
	£000	£000
Pension costs incurred in Net Cost of Services:		
Current service cost	(3,272)	(1,352)
	(3,272)	(1,352)
Pension interest cost and expected return on assets:		
Interest on liabilities	(5,198)	(4,263)
Expected return on assets	3,229	2,872
	(1,969)	(1,391)
Total Transfer to Pension Reserve	(5,241)	(2,743)

Collection Fund Account

Collection Fund - Income and Expenditure Statement

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 records 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.

2019/20				2020/21		
Council Tax	Business Rates	Total		Council Tax	Business Rates	Total
£000	£000	£000	Note	£000	£000	£000
Income						
(138,823)		(138,823)	Council Tax Collectable	2	(145,804)	(145,804)
	(113,496)	(113,496)	Income from Business Ratepayers		(62,374)	(62,374)
	(3,395)	(3,395)	Transitional Protection payments - Business Rates		(1,101)	(1,101)
		(255,714)	Total Income			(209,279)
Expenditure						
Precepts and Demands:						
			3			
114,696	-	114,696	Leicester City Council	122,845		122,845
16,495	-	16,495	Police & Crime Commissioner for Leicestershire	17,749		17,749
4,924	-	4,924	Leicestershire & Rutland Combined Fire Authority	5,172		5,172
		136,115				145,766
Business Rates:						
			4			
-	27,419	27,419	Payments to Government		56,957	56,957
-	1,097	1,097	Payments to Fire		1,139	1,139
-	81,159	81,159	Payments to Leicester City Council		55,818	55,818
-	482	482	Costs of Collection		483	483
		110,157				114,397
1,704	(7,359)	(5,655)	Contributions in respect of previous year's surplus / (deficit)	6	970	2,007
					2,007	2,977
Bad and Doubtful Debts:						
			7			
1,366	1,879	3,245	Write-offs	1,600	1,406	3,006
932	723	1,655	Increase / (Reduction) to provision	3,901	2,627	6,528
	1,592	1,592	Increase / (Reduction) to Provision for appeals		3,550	3,550
		247,109	Total Expenditure			276,224
1,294	(9,899)	(8,605)	Fund (Surplus) / Deficit for the Year	6,433	60,512	66,945
(2,038)	8,139	6,101	Fund (Surplus) / Deficit brought forward	5	(744)	(1,760)
						(2,504)
(744)	(1,760)	(2,504)	FUND BALANCE AS AT 31st MARCH	1	5,689	58,752
						64,441

Collection Fund Explanatory Notes

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:

	2019/20			2020/21		
	Council	Business	Total	Council	Business	Total
	Tax	Rates		Tax	Rates	
	£000	£000	£000	£000	£000	£000
Leicester City Council	(627)	(1,497)	(2,124)	4,793	28,850	33,643
Government	-	(245)	(245)	-	29,315	29,315
Leicestershire & Rutland Combined Fire Authority	(27)	(18)	(45)	202	588	790
Police & Crime Commissioner for Leicestershire	(90)	-	(90)	693	-	693
Fund Balance Allocations as at 31st March	(744)	(1,760)	(2,504)	5,688	58,753	64,441

Collection Fund Explanatory Notes (continued)

2. Council Tax Base

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:

The total collectable Council Tax during 2020/21 was £145.8m including arrears from prior years.

The collectable Council Tax specifically for 2020/21 was £172.1m (including sums paid under the Local Council Tax Reduction Scheme). After taking into account the total amount of this reduction (£25.1m), the average number of Band D dwellings equates to 76,121. This is an increase from the 76,101 dwellings existing when the 2020/21 budget was prepared due to the net effect of the following:

- 1) Changes in discounts and exemptions allowed;
- 2) New properties;
- 3) Lower amounts of local council tax reduction granted than expected, arising from reduced claimant numbers.

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-	265	5/9	147	52	95
A	69,711	6/9	46,474	9,645	36,829
B	24,017	7/9	18,680	1,946	16,734
C	14,007	8/9	12,451	916	11,535
D	5,866	9/9	5,866	287	5,579
E	3,214	11/9	3,928	113	3,815
F	1,460	13/9	2,109	40	2,069
G	568	15/9	947	7	940
H	30	18/9	60	0	60
	119,138		90,662	13,006	77,656
Less adjustments for collection rates and other adjustments.					(1,555)
Council Tax Base					76,101

Collection Fund Explanatory Notes (continued)

3. Precepts and Demands

The following sums were paid from the collection fund.

	2019/20 £000	2020/21 £000
Leicester City Council	114,696	122,845
Police & Crime Commissioner for Leicestershire	16,495	17,749
Leicestershire & Rutland Combined Fire Authority	4,924	5,172
Total	136,115	145,766

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.

	31st March 2020 £	31st March 2021 £
Non Domestic Rateable Value	305,198,096	304,089,891
	2019/20	2020/21
Non Domestic Rating Multiplier	50.4p	51.2p
Non Domestic Rating Multiplier- Small Business	49.1p	49.9p

Collection Fund Explanatory Notes (continued)

5. Collection Fund Surpluses & Deficits

The Collection Fund account shows a cumulative deficit of £64.4m at 31st March 2021 (£2.5m surplus at 31st March 2020). The 2020/21 deficit is unusually high due to Covid-19 Business Rate reliefs given in year. The council has been compensated through government grants, that will offset future deficits as they are realised. There is a smaller element of the deficit due to changes in the bad debt provision and appeals, this will be spread over the next 3 years.

The deficit arising on the Council Tax is £5.7m (£0.7m surplus 31st March 2020). This is a result of the bad debt provision and 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.

Collection Fund Explanatory Notes (continued)

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 commissioner 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	Police	Fire	Total
	£000	£000	£000	£000
Estimated (Surplus) – Jan 2020	(817)	(118)	(35)	(970)

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	Government	Fire	Total
	£000	£000	£000	£000
Estimated (Surplus) – Jan 2020	(1,680)	(307)	(20)	(2,007)

Collection Fund Explanatory Notes (continued)

7. Bad and Doubtful Debts

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

Provisions	Bad Debt Provision			
	Balance at	Bad Debt Write-	Increase/	Balance at
	1st April 2020	offs In year	(Decrease) to	31st March
	£000	£000	£000	2021
	£000	£000	£000	£000
Council Tax	8,021	(1,600)	5,501	11,922
NNDR	4,759	(1,406)	4,033	7,386
Total	12,780	(3,006)	9,534	19,308

Annual Governance Statement

Leicester City Council Annual Governance Statement 2020-21

1. Introduction

The Council is committed to good corporate governance and complies with the CIPFA/SOLACE “Delivering Good Governance Framework” (2016). The Framework requires local authorities to be responsible for ensuring that:

- their business is conducted in accordance with all relevant laws and regulations
- public money is safeguarded and properly accounted for
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people

This statement is produced in fulfilment of the requirements under the Accounts and Audit Regulations, 2015, to prepare an annual governance statement.

2. The Arrangements

The Council works within the governance arrangements summarised in Appendix 1, and has an approved Local Code of Corporate Governance. The following describes how the Council meets the requirements of good governance through the core principles, systems, policies and procedures it has in place. Appendix 2 demonstrates how this has been assessed to inform the Annual Governance Statement.

Key plans were changed during the year as the focus moved to managing the COVID-19 pandemic in the City and the recovery. Although the pandemic has presented a significant challenge, the Council continued to work within its governance framework even under pandemic conditions.

We have the following codes and rules:

- Constitution
- Financial Procedure Rules
- Code of Conduct for Members
- Code of Conduct for Employees
- Anti-fraud, Bribery and Corruption Policy
- Whistleblowing Policy
- Information Governance & Risk Policy

The City Mayor has set out a strategic vision containing a number of key pledges which relate to:

- A Fair City
- Homes for All
- Connecting Leicester
- Sustainable Leicester
- Health & Care

- Lifelong Learning
- A City to Enjoy
- A Safe and Inclusive Leicester

The key pledges are supported by the following key plans:

- Economic Recovery
- Budget Strategy
- COVID-19 Reopening Plan for the City
- COVID-19 Transport Recovery Plan
- Leicester Street Design Guide
- Joint Health & Wellbeing Strategy
- Local Transport Plan
- Tourism Action Plan
- Economic Action Plan
- St George's Cultural Quarter Action Plan

We demonstrate good practice and ensure accountability through:

- External Audit
- Annual Financial Statements
- Annual Governance Statement
- Open Council & committee meetings with published minutes
- Compliance with CIPFA codes of Practices (including the new Financial Management Code)
- Scrutiny Committees

Leicester City Council Annual Governance Statement 2020-21 (continued)

2. The Arrangements (continued)

We show openness and engagement through the following:

- Open Council & committee meetings with published minutes
- Published Executive decisions
- Scrutiny of Executive projects through committees
- Call in periods for Executive decisions
- Public engagement through consultation, representations and petitions
- Use of social media and engagement with the press and media
- Publication of Freedom of Information Act responses and transparency data

We are supported by:

- Democratic Services including Member and Civic Support Services, who also support member development
- An Organisational Development Team, who facilitate effective development of employees
- A Communications function which includes PR, Media and Digital Media Teams
- A staff intranet and established internal communication channels, which provide

guidance to staff

- Partnership working on key priorities
- An Information Assurance Team to support our data policies
- Specialist teams offering professional advice, for example Legal, Procurement, IT and Finance

We review processes and delivery throughout the year supported by:

- Internal Audit
- External Audit
- Information Governance
- Audit and Risk Committee
- Regular reporting of capital and revenue spending during a year
- Annual review of the Local Code of Corporate Governance
- Annual review of the Assurance Framework
- By reviewing lessons learnt by other organisations

Additional information on many of the areas detailed above can be found on the Council's website;

www.leicester.gov.uk

3. Review of Effectiveness

The Council's review of processes enables the identification of any areas of the Council's activities where there are significant weaknesses in financial controls, governance arrangements or the management of risk. Overall, from this year's work, it can be concluded that controls are operationally sound and that the Council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer in Local Government'. This has been supported by the internal audit opinion which stated:

"The HoIAS will conclude Leicester City Council's control environment (its framework of governance, risk management and control) is overall adequate and effective."

Risk management and internal control are a significant part of the governance framework and are designed to manage risk to a reasonable level. We cannot eliminate all risk of failure to achieve policies, aims and objectives however the above controls provide reasonable but not absolute assurance of effectiveness.

Leicester City Council Annual Governance Statement 2020-21 (continued)

Areas of significant risk or priorities for action have been identified and are detailed in the tables, together with an update of the issues identified last year.

Issues Identified in 2019/20

The areas of significant risk or priorities for action that have been identified are listed in the table:

Issue Identified	Action taken to Date
<p>Medium Term Financial Strategy – Like all local authorities, the Council's financial viability is a key concern. In addition to growing social care pressures and the absence of Government spending plans beyond 20/21, we will also need to plan for permanent changes in the way we provide services as a consequence of the COVID-19 pandemic.</p>	<p>The Covid-19 pandemic has challenged the underlying assumptions on which the 2020/21 budget was based. However, the Council has shown during 2020/21 to be financially resilient and has set a balanced budget for 2021/22.</p>
<p>Covid-19 Pandemic – like all local authorities, the Council has been affected by the pandemic in various ways, including:</p> <ul style="list-style-type: none"> • Providing additional services to support the city during the pandemic. • Assessing the long-term impact of the pandemic on the local economy. • In year and future financial impacts. <p>Maintaining good governance and effective scrutiny nonetheless remains essential.</p>	<p>The Council has been involved in providing an extensive response to Covid-19. Many aspects of which have received national recognition and been rolled out as models of good practice. This has included for example, an extensive programme of local testing and contact tracing.</p> <p>A significant and ongoing programme of support has been provided to vulnerable residents along with the administration of a significant number of grant schemes to support businesses across the city. There has been continued robust oversight of this with weekly reporting to the City Mayor and Executive, regular briefings for all elected members and progress updates to each meeting of the Overview Select Committee and to individual scrutiny commissions.</p> <p>The Council has also continued to engage in the Local Resilience Forum wider governance of the response.</p>

Leicester City Council Annual Governance Statement 2020-21 (continued)

Areas of significant risk or priorities for action have been identified and are detailed in the tables, along with an update of the issues identified last year.

Issues Identified in 2020/21

The areas of significant risk or priorities for action that have been identified are listed in the table:

Issue Identified	Planned Action:
<p>Medium Term Financial Strategy - Like all local authorities, the Council's financial viability is a key concern. We do not have any Government spending plans beyond 2021/22, do not fully understand the legacy of the pandemic, and there is no national solution yet to the social care funding crisis.</p> <p>We have identified potential ongoing pressures on the Council's finances and included this as part of the budget for 2021/22.</p>	<p>The Council will continue to monitor its finances closely during 2021/22 including the short & long term impacts of COVID-19. A major exercise will take place to review the budget for 2022/23.</p>
<p>Covid-19 Pandemic – like all local authorities, the Council has been affected by the pandemic in various ways, including:</p> <ul style="list-style-type: none"> • Providing additional services to support the city during the pandemic. • In year and future financial impacts. <p>Maintaining good governance and effective scrutiny nonetheless remains essential.</p>	<p>The Council will continue to deliver the ongoing response including testing and contact tracing as well as ongoing work with health in relation to supporting the Covid-19 vaccination programme. In addition, support for residents and businesses will continue as appropriate.</p> <p>This work will continue to be overseen by the political leadership including reporting to scrutiny committees and the Council will continue to play an active role in the Local Resilience Forum response and recovery structures for Covid-19.</p>

Leicester City Council Annual Governance Statement 2020-21 (continued)

4. Conclusion

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*:

City Mayor

Chief Operating Officer

*Signatures will be included in final accounts

The Council had the following governance arrangements in place during 2020/21.

SUMMARY OF THE COUNCIL'S GOVERNANCE ARRANGEMENTS

Mayor, Executive and Council

- Provide leadership, develop and set policy
- Key risks are considered by the Executive quarterly

Decision making

- Decisions are recorded on the Council's website
- There is a period of grace in which decisions are open to review

Risk management

- Risk registers identify both operational and strategic risks
- Key risks are considered by Corporate Management Team quarterly

Scrutiny and review

- Scrutiny committees review Council policy and can challenge decisions
- Audit and Risk Committee approves the annual accounts and reviews policies & procedures that ensure good governance of the Council. It also approves the Internal Audit Annual Report and opinion

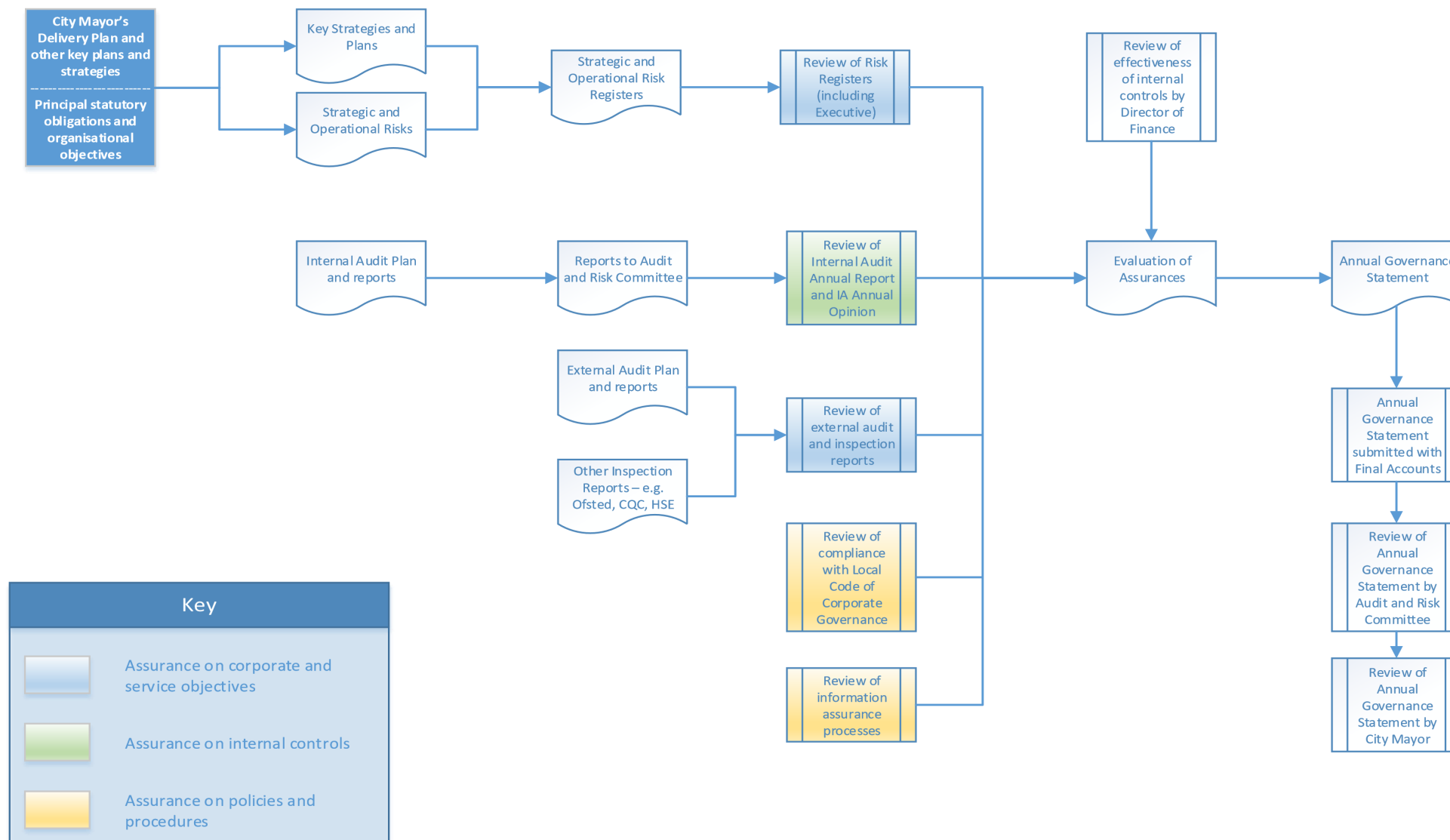
Corporate Management Team (CMT)

- Provides service level management and interface with the political leadership
- Head of Paid Service is the Chief Operating Officer, who is responsible for all Council staff and for leading an effective CMT
- Chief Operating Officer is the s.151 Officer and is responsible for safeguarding the Council's financial position and ensuring value for money
- Monitoring Officer is the City Barrister & Head of Standards who is responsible for ensuring legality and promoting high standards of public conduct
- CMT includes all strategic and divisional directors

Leicester City Council Annual Governance Statement 2020-21 (continued)

Appendix 2

The following diagram, shows how the Council has assessed its governance arrangements to inform the Annual Governance Statement



Glossary

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.

Academies

Publicly funded schools, independent of Local Authority control, held accountable directly to the Government.

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.

Agent

Is where the authority is acting as an intermediary.

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.

Asset

A resource controlled by the authority, as a result of past events and from which future economic benefits are expected to flow to the authority.

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.

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.

Glossary (continued)

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.

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.

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.

Glossary (continued)

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.

Expenditure and Funding Analysis

This statement shows how annual expenditure is used and funded from resources by the Council in comparison to those resources consumed or earned by authorities in accordance with generally accepted accounting practices.

External audit

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.

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

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.

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.

Glossary (continued)

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.

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.

Liabilities

An obligation to transfer economic benefits. Current liabilities are payable within one 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.

Local Council Tax Reduction Scheme

System of granting means-tested Council Tax discounts and exemptions depending on personal taxpayer circumstances.

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).

Glossary (continued)

Movement In Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that be applied to fund expenditure or reduce local taxation) and other reserves.

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. Income is shared between Central Government, the Council and Leicestershire Fire authority.

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 Crime Commissioner and the Leicestershire & Rutland Combined Fire Authority.

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.

Principal

Is where the authority is acting on its own behalf.

Private Finance Initiative (PFI)

An initiative for utilising private sector funding to provide public sector assets.

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.

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

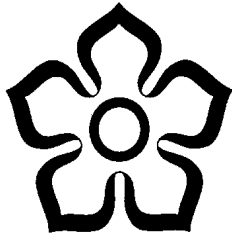
This reserve contains revaluation gains on assets recognised since 1 April 2007 only, the date of its formal implementation.

Note References

Note 1	Accounting Policies	Note 24	Provisions
Note 2	Expenditure and Funding Analysis	Note 25	Usable Reserves
Note 3	Accounting standards issued but not yet adopted	Note 26	Unusable Reserves
Note 4	Critical judgments in applying accounting policies	Note 27	Cash Flow Statement - Operating Activities
Note 5	Assumptions Made about the Future and other Major Sources of Estimation Uncertainty	Note 28	Cash Flow Statement - Investing Activities
Note 6	Material Items of Income and Expense	Note 29	Cash Flow Statement - Financing Activities
Note 7	Events After the Balance Sheet Date	Note 30	Pooled Budgets
Note 8	Note to the Expenditure and Funding Analysis	Note 31	Member's Allowances
Note 9	Adjustments between Accounting Funding Basis under	Note 32	Officers' Remuneration
Note 10	Movements in Earmarked Reserves	Note 33	External Audit Costs
Note 11	Other Operating Expenditure	Note 34	Dedicated Schools Grant
Note 12	Financing and Investment Income and Expenditure	Note 35	Grant Income
Note 13	Taxation and Non-Specific Grant Income and Expenditure	Note 36	Related Parties
Note 14	Expenditure and Income Analysed by Nature	Note 37	Capital Expenditure and Capital Financing
Note 15	Property, Plant and Equipment	Note 38	Leases
Note 16	Heritage Assets	Note 39	Private Finance Initiatives and Service Concession Arrangements
Note 17	Intangible Assets	Note 40	Termination Benefits
Note 18	Financial Instruments	Note 41	Pension Schemes Accounted for as Defined Contribution Schemes
Note 19	Inventories	Note 42	Defined Benefit Pension Schemes
Note 20	Debtors	Note 43	Contingent Liabilities
Note 21	Cash and Cash Equivalents	Note 44	Contingent Assets
Note 22	Assets Held for Sale	Note 45	Nature and Extent of Risks Arising from Financial Instruments
Note 23	Creditors		

Appendix B – Estimates Key Assumptions

Estimate	Key Assumptions Involved
Property Plant & Equipment (PPE)	<p>This is completed by a RICS qualified valuer.</p> <ul style="list-style-type: none"> • Useful lives i.e. how long asset likely to remain in service • Levels of repairs and maintenance • Market prices i.e. based on comparable prices or expected returns • Appropriate buildings cost indices (BCIS)
Fair Value of Loans	<ul style="list-style-type: none"> • Quoted prices in active markets for identical liabilities • Interest rates or yields for similar instruments e.g. AA corporate bond yields • Estimated creditworthiness
Pension Liability	<p>This is completed by an actuary.</p> <p>Financial Assumptions</p> <ul style="list-style-type: none"> • Using appropriate discount rates to account for the time value of money • Inflation forecasts • Salary increases <p>Demographic Assumptions</p> <ul style="list-style-type: none"> • Mortality assumptions i.e. life expectancies • Ill health retirements • Withdrawals e.g. how many people take lump sum



Leicester
City Council

WARDS AFFECTED:
ALL

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Audit and Risk Committee
Council

21st July 2021
TBC

Report of the Audit and Risk Committee to Council
covering the municipal years 2019/20 and 2020/21

Report of the Deputy Director of Finance

1 PURPOSE OF REPORT

- 1.1 To present to the Council the report of the Audit and Risk Committee setting out the Committee's achievements over the municipal years 2019/20 and 2020/21.
- 1.2 This report was presented to the Committee for approval at its meeting on 21st July 2021.

2 RECOMMENDATIONS

- 2.1 Audit and Risk Committee is recommended to approve this report for submission to the Council.
- 2.2 Council is recommended to receive this report.

3 SUMMARY

- 3.1 The Committee's terms of reference approved by Council require the submission of an annual report on its activities, conduct, business and effectiveness. Moreover, the CIPFA* guidance on Audit Committees states that the audit committee should be held to account on a regular basis by Council, and that the preparation of an annual report can be helpful in this regard. (* CIPFA – the Chartered Institute of Public Finance and Accountancy)
- 3.2 The 2019/20 report was approved by the Committee in September 2020, however, owing to the pandemic restrictions was not presented to Council. The 2020/21 report has now also become due, so the opportunity has been taken

to produce this new report covering both 2019/20 and 2020/21. Following the Committee's approval, this will proceed to Council.

- 3.3 The Audit and Risk Committee considered a wide range of business in fulfilment of its central role as part of the Council's system of corporate governance, risk management, fraud and internal control. It conducted its business in an appropriate manner through a programme of meetings and fulfilled the expectations placed upon it.

4 REPORT

- 4.1 The Committee's terms of reference are regularly reviewed. They formally confer upon it the role of 'the board' for the purposes of the *Public Sector Internal Audit Standards*, (the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework, interpreted and adopted for local government by CIPFA) as the recognised professional standards for local authority internal audit. Updated terms of reference were considered by the Committee in March 2021, and subsequently approved by Council to take effect for the 2021/22 municipal year.
- 4.2 During the municipal year 2019/20, the Committee met on four occasions. The fifth meeting of the year was cancelled due to the Covid-19 pandemic. In 2020/21, the Committee met five times, all meetings being online due to the pandemic. All meetings were properly constituted and quorate. The Committee's terms of reference required it to meet at least three times a year (the new terms of reference stipulate not less than four times). The Deputy Director of Finance and Leicestershire County Council's Head of Internal Audit and Assurance Service attended meetings of the Committee. In addition, and in the interests of providing the full range of legal, constitutional and financial advice and expertise, the Committee was supported by the Director of Finance and the City Barrister & Head of Standards or their representatives.
- 4.3 CIPFA has a publication *Audit Committees – Practical Guidance for Local Authorities*, providing guidance on function and operation of audit committees. The position statement within the guidance, notes "*audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.*"
- 4.4 Further to this it notes the purpose of the governance committee is to provide those charged with governance independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes.
- 4.5 It is considered that Audit and Risk Committee met the requirements for an effective Audit Committee. In summary the reasons for this are:
- The Committee meets regularly, and its chair and membership are sufficiently independent of other functions in the Council. Meetings are conducted constructively and are free and open and are not subject to political influences;

- The Committee's terms of reference provide a sufficient spread of responsibilities covering internal and external audit, risk management and governance;
- The Committee plays a sufficient role in the management of Internal Audit, including approval of the audit plan, review of Internal Audit's performance and the outcomes of audit work and management's response to that; and
- The Committee received reports from Grant Thornton as the Council's external auditor and maintains an overview of the external audit process including the fees charged.

4.6 However, it is acknowledged that Committee members need suitable training. Arrangements continue to be made to provide training on a relevant topic immediately before meetings of the Committee. The Committee is subject, of course, to some turnover of membership each municipal year, an inevitable consequence of the political environment in a local authority. Should this happen, training for new members is offered.

4.7 The Committee has continued to make an important contribution to the effectiveness of the City Council's internal control and corporate governance frameworks. It is a central component of the Council's system of internal control. The key outcomes from the Committee's work included:

4.8.1. Internal Audit

- The Committee considered the Internal Audit annual plans and monitored delivery and outcomes during the year. The Committee also received the Internal Audit annual reports and opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control.
- The Committee reserves the right to summon relevant officers to attend its meetings to discuss in more depth specific issues raised by Internal Audit reports. This has helped to maintain the profile of the Committee and its role in promoting adherence to procedures and improved internal control.

4.8.2 Counter-Fraud

- The Committee maintained an effective overview of the Council's measures to combat fraud and financial irregularity. Specifically, the Committee:
 - Considered counter-fraud reports, which brought together the various strands of counter-fraud work with data on the various types of work carried out by the teams involved.
 - Reviewed and supported the Council's participation in the National Fraud Initiative.

4.8.3 External Audit

- The Committee considered the external auditor's plans and progress and the outcomes of this work, with particular reference to the annual audit of the Council's statutory financial statements.

4.8.4 Risk Management

- The Committee maintained a regular overview of the risk management arrangements. This included the Council's strategic and operational risk registers, 'horizon-scanning' for potential emerging risks to the Council and its services, together with the Risk Management Strategy and Policy and Corporate Business Continuity Management Strategy.

4.8.5 Corporate Governance

- The Committee fulfilled the responsibilities of 'the board' for the purposes of the City Council's conformance to the *Public Sector Internal Audit Standards* in terms of overseeing the Council's arrangements for audit, the management of risk and the corporate governance assurance framework.
- The Committee maintained its oversight of the Council's corporate governance arrangements. The Council's updated assurance framework, which maps out the process for collating the various sources of assurance and preparing the Council's statutory Annual Governance Statement, was reviewed and approved by the Committee.
- The Committee approved the Annual Governance Statements for 2018/19 and 2019/20.
- This annual report to Council is part of the governance arrangements, through giving a summary of the Committee's work and contribution to the good governance of the City Council and demonstrating the associated accountability.

4.8.6 Financial reporting

- The Committee received and approved the Council's statutory Statement of Accounts for 2018/19 and 2019/20 and associated external audit reports. It approved the Council's letters of representation, by means of which the City Council gives assurance to the external auditor; there were no significant items that were not reflected in the Council's accounting statements.
- The external auditor's Annual Governance Reports were issued to the Committee as 'those charged with governance' and considered accordingly. In these reports, the auditor confirmed that his audit opinion on the Council's financial statements would be 'unqualified'.

4.8.7 Other Work

- During the years the Committee also received updates and reports on the following areas:
 - Insurance
 - Corporate complaints
 - Procurement
 - Developments in Audit & Governance

5. **Conclusions**

- 5.1 The Committee fulfilled all of the requirements of its terms of reference and the good practice guidance issued by CIPFA.
- 5.2 It is the view of the Chief Operating Officer (the s151 officer) that the Audit & Risk Committee made a significant contribution to the good governance of the City Council. Through its work, it has reinforced the Council's systems of internal control and internal audit and has given valuable support to the arrangements for corporate governance, legal compliance and the management of risk.
- 5.3 Each year, following any changes in membership, there is a need to support members with relevant training and briefings on technically complex subjects, particularly in the context of the governance of a large local authority and especially during a period of continued financial stringency and change. The effectiveness of the Committee is enhanced by having members who have sufficient expertise and experience, attributes which benefit from some continuity of membership.

6. **FINANCIAL, LEGAL AND OTHER IMPLICATIONS**

6.1 **Financial Implications**

An adequate and effective Audit & Risk Committee is a central component in the governance and assurance processes intended to help ensure that the Council operates efficiently, cost effectively and with integrity. Its support for the processes of audit and internal control will help the Council as it continues to face the financially challenging times.

Colin Sharpe, Deputy Director of Finance, ext. 37 4081

6.2 **Legal Implications**

The Audit & Risk Committee aids the fulfilment by the Council of its statutory responsibilities under the Accounts and Audit Regulations 2015 by considering the findings of a review of the effectiveness of the Council's system of internal control. It is an important part of the way in which the duties of the responsible financial officer under s151 of the Local Government Act 1972 are met.

Kamal Adatia, City Barrister & Head of Standards, x37 1401

7. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph references within supporting information
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Climate Change	No	
Crime and Disorder	Yes	4.8.2 – references to fraud and corruption
Human Rights Act	No	
Elderly/People on Low Income	No	
Corporate Parenting	No	
Health Inequalities	No	
Risk Management	Yes	The whole report concerns the audit, risk management and governance process, a main purpose of which is to give assurance to Directors and this Committee that risks are being properly identified and managed appropriately by the business.

8. BACKGROUND PAPERS – LOCAL GOVERNMENT ACT 1972

Agendas and Minutes of the Audit & Risk Committee meetings

REPORT AUTHOR

Colin Sharpe, Deputy Director of Finance



Leicester City Council Audit & Risk Committee
21st July 2021

Progress against Internal Audit Plans

Report of Leicestershire County Council's Head of Internal Audit & Assurance Service

Purpose of Report

1. The purpose of this report is to provide:
 - a. a summary of progress against the 2020-21 & 2021-22 Internal Audit Plans
 - b. information on resources used to progress the plans
 - c. summary information on high importance recommendations and progress with implementing them

Recommendation

2. That the contents of the routine update report be noted.

Background

3. Under the Council's Constitution, the Audit & Risk Committee (the Committee) has duties to monitor performance against the Internal Audit Plan and to receive summaries of Internal Audit reports and the main issues arising.
4. Most planned audits undertaken are 'assurance' type, which requires undertaking an objective examination of evidence to reach an independent opinion on whether risk is being mitigated. For these audits an assurance level is given as to whether material risks are being managed. There are four levels: full; substantial; partial; and little. 'Partial' ratings are normally given when the auditor has reported at least one high importance recommendation, which would be reported to this Committee and a follow up audit would ensue to confirm action had been implemented. Occasionally, the auditor might report several recommendations that individually are not graded high importance but collectively would require a targeted follow up to ensure improvements have been made.
5. Other planned audits are 'consulting' type, which are primarily advisory and guidance to management. These add value, for example, by commenting on the effectiveness of controls designed before implementing a new system.

6. Grants and other returns are audited, but because these are specific or focused reviews of certain aspects of a process in these cases it is not appropriate to give an assurance level. When they are completed, 'certified' is recorded.
7. Follow up audits relating to testing whether recommendations have been implemented from previous years' audits are undertaken. With this type, assurance levels aren't given because not all of the system is being tested. However, the Head of Internal Audit Service (HoIAS) forms a view on whether the situation has improved since the original audit and that is listed.
8. Work undertaken by the Internal Audit Service (IAS) has continued to be undertaken remotely to follow corporate guidance and ensuring the safety of both staff and clients. The IA plan is statement of intent and remains flexible, to allow for any changes during the course of the year; the impact of COVID 19 in the last financial year saw a number of changes to the plan, with a number of audits being added/cancelled/rescheduled/postponed. Whilst changes are made to the plan, it is essential that the plan continues to have adequate coverage of audits to allow the HoIAS to form their opinion at the year-end.

Summary of progress at 31st May 2021

9. **Appendix 1** reports on the position at 31st May 2021. Updates (i.e. closures, movements in status, new starts and postponements) are shown in a **bold font**. The summary position (with comparison to the previous position as at 31st January 2021) is:

	2020/21 @31/01/21	2020/21 @31/05/21	2021/22 @31/05/21
Outcomes			
High(er) Assurance levels	6	13	0
Low(er) Assurance levels	0	2	0
Advisory	2	3	0
Grants/other certifications	18	22	4
HI follow ups – completed	0	3	0
Audits finalised	26	43	4
HI follow ups – in progress	0	5	0
In progress	21	14	7
Not yet started	14	0	41
Postponed/Rescheduled/ Cancelled	11	23	0

Resources used as at 31st May 2021

To close off 2020- 21 audits and start and progress 2021-22 audits (reported in Appendix 1), and provide additional work relating to requirements such as planning, reporting to Committees etc, by 31st May 2021, Leicester City Council had received 92 days of internal audit input delivered (see below table).

	@31/05/21	@31/05/21
By type	Days	%
Audits	80	87
Client management	12	13
Total	92	100
By position		
HolIAS	2	2
Audit Manager	20	22
Audit Senior (incl. ICT)	13	14
Audit Other	57	62
Total	92	100
Relating to prior years audits	47	51
Relating to audits started 2021-22	45	49
Total	92	100

(*) These days were utilised either concluding previous years audits or following up on the progress made with implementing audit recommendations where low assurance levels had been reported.

Progress with implementing high importance recommendations

10. The Committee is also tasked with monitoring the implementation of high importance (HI) recommendations which primarily lead to low assurance levels. **Appendix 2** provides a short summary of the issues and the associated recommendations. The relevant manager's agreement (or otherwise) to implementing the recommendation(s) and the implementation timescale is also shown. Recommendations that have not been reported to the Committee before or where LCCIAS has identified that some update has occurred to a previously reported recommendation are shown in **bold font**. Entries remain on the list until the HolIAS has confirmed (by gaining evidence or even specific re-testing by an auditor) that action has been implemented.

11. As part of the process of determining his annual opinion, the HoIAS, informed clients that one of the components was how management has responded to implementing high importance recommendations, and (whilst acknowledging it's been a very challenging year all round) he was keen to close off as many of the HI recommendations as possible. Responses have generally been positive but there is recognition that some responses may have to await schools re-opening and some recommendations do require more time to fully implement.
12. To summarise movements within Appendix 2 as at 22nd June 2021:
- a. New – Government Procurement Card (GPC)
 - b. Ongoing - GDPR; Financial Management & School Governance - LA Scheme for the Financing of Schools; Financial Management & School Governance - SEND funding (part);
 - c. Closed – St Barnabas CE Primary; Hazel Community Primary School Concessionary Travel.

Financial Implications:

13. None

Legal Implications:

14. None.

Equal Opportunities Implications

15. There are no discernible equal opportunities implications resulting from the audits listed.

Climate Emergency Implications:

16. None

Is this a private report (If so, please indicate the reasons and state why it is not in the public interest to be dealt with publicly)?

17. No.

Is this a “key decision”? If so, why?

18. No.

Background Papers

The Constitution of Leicester City Council
Accounts and Audit Regulations (Amendment) 2015
The Public Sector Internal Audit Standards (revised from April 2017)
The Internal Audit Plans 2020-21 and 2021-22

Officer to Contact

Neil Jones, Head of Internal Audit & Assurance Service
Leicestershire County Council
Tel: 0116 305 7629
Email: neil.jones@leics.gov.uk

Appendices

- Appendix 1 - Summary of Internal Audit Service work undertaken between
31st January 2021 – 31st May 2021
- Appendix 2 - High Importance Recommendations as at 22nd June 2021.

Appendix 1: Summary of Internal Audit Progress Report as at 31st May 2021					
Appendix 1: Leicester City Council 2021-22 Audit Plan (includes 2020-21 b/fwd) - Finalised as at 31.05.2021					
Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Audit Title	Assurance Level
2019-20	Added to plan	Leicester City Council	Systems	Procurement Card	Partial Assurance
2020-21	Planned	Leicester City Council	Systems	Safety Camera	Substantial Assurance
2020-21	Planned	Leicester City Council	Governance	Leicester & Leicestershire Enterprise Partnership	Substantial Assurance
2020-21	Added to plan	Leicester City Council	Grant Certification	COVID 19: Winter Grant	Substantial Assurance
2020-21	Planned	Leicester City Council	Significant Financial Systems	Major Financial Systems(MFS) Audit - Debtors	Substantial Assurance
2020-21	Planned	Leicester City Council	Significant Financial Systems	Major Financial Systems(MFS) Audit - Treasury Management	Substantial Assurance
2020-21	Planned	Leicester City Council	Systems	Domiciliary Care	Substantial Assurance
2020-21	Added to Plan	Leicester City Council	Grant Certifications	COVID 19 : Self Isolation Payment Scheme - Phase 2	Substantial Assurance
2020-21	Planned	Leicester City Council	IT & Information Assurances	GDPR	Partial Assurance
2020-21	Planned	Leicester City Council	Grant Certifications	SET-UP - Claim 2	Certified
2020-21	Planned	Leicester City Council	Grant Certifications	Troubled Families Claims 4	Certified
2020-21	Added to Plan	Leicester City Council	Grant Certifications	Additional Dedicated Home to School & College Transport (Tranche 1)	Certified
2020-21	Added to Plan	Leicester City Council	Grant Certifications	COVID 19: Emergency Active Travel Fund	Certified
2020-21	Added to Plan	Leicester City Council	Grant Certifications	COVID 19 Local Authority Enforcement and Compliance Grant	Certified
2020-21	Planned	Leicester City Council	Systems & Governance	Direct Payments	Completed
2021-22	Planned	Leicester City Council	Grant Certifications	LLEP - BEIS Growth Hub - Core	Certified
2021-22	Planned	Leicester City Council	Grant Certifications	LLEP - BEIS Growth Hub – supplementary	Certified
2021-22	Planned	Leicester City Council	Grant Certifications	LLEP - BEIS- EU transition funding	Certified
2021-22	Added to plan	Leicester City Council	Grant Certifications	Spinney Hill - Tailored Support Programme	Certified
Leicester City Council : 2021-22 Audit Plan (includes 2020-21 b/fwds) - Status as at 31.05.2021					
Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Audit Title	Current Milestone
2019-20	Planned	Leicester City Council	Grant Certification	Regional Growth Fund - RGF 3	Draft Report
2019-20	Planned	Leicester City Council	Compliance Audit	Planning Enforcement	Revised Draft
2020-21	Planned	Leicester City Council	Contract & Procurement	Contract Audit - Highways Contract	Draft Report
2020-21	Planned	Leicester City Council	Systems	Disabled Facilities System Review	Draft Report
2020-21	Planned	Leicester City Council	IT & Governance	BACs & DD	Draft Report
2020-21	Planned	Leicester City Council	Systems	Early Years	Work in Progress
2020-21	Planned	Leicester City Council	Contract & Procurement	Contract Audit - Housing	Work in Progress
2020-21	Planned	Leicester City Council	Contract & Governance	Construction contracts	Work in Progress
2020-21	Planned	Leicester City Council	IT & Information Assurances	Data analytics	Work in Progress
2020-21	Planned	Leicester City Council	IT & Governance	Digital Transformation	Work in Progress
2020-21	Planned	Leicester City Council	Governance & risk management	Climate change and carbon emissions	Work in Progress
2020-21	Planned	Leicester City Council	IT & Information Assurances	IT Audits - Key ICT controls	Work In Progress
2020-21	Added to Plan	Leicester City Council	Grant Certifications	COVID 19: Additional Dedicated Home to School & College Transport - Tranche 2&3	Work In Progress
2020-21	Added to Plan	Leicester City Council	Grant Certifications	COVID 19: CBSSG (Restart - Tranche 3/4/5)	Work In progress
2021-22	Planned	Leicester City Council	Systems & Governance	Housing Stores	Work in Progress
2021-22	Planned	Leicester City Council	Systems	B&B Emergency Planning (Phase 2)	Work in Progress
2021-22	Planned	Leicester City Council	Risk Management	Risk Management & Business Continuity Framework	Work in Progress

Leicester City Council : 2021-22 Audit Plan (includes 2020-21 b/fwds) - Status as at 31.05.2021					
Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Audit Title	Current Milestone
2021-22	Planned	Leicester City Council	Governance	Governance changes	Planning
2021-22	Planned	Leicester City Council	Grant Certifications	Adriatic Land 7 Limited Service Charges	Planning
2021-22	Planned	Leicester City Council	Schools	Management and governance of maintained schools	Planning
2021-22	Planned	Leicester City Council	Grant Certifications	Supporting Families (Previously referred to as Troubled Families)	Planning
2021-22	Planned	Leicester City Council	Systems & Governance	Finance Roles & Responsibility	Not started
2021-22	Planned	Leicester City Council	Grant Certifications	LLEP - Peer Network Funding	Not started
2021-22	Planned	Leicester City Council	Risk Management	Fire risk in owned and occupied buildings	Not started
2021-22	Planned	Leicester City Council	Systems & Governance	COVID 19 - Grants	Not started
2021-22	Planned	Leicester City Council	IT & Information Assurances	Data analytics	Not started
2021-22	Planned	Leicester City Council	Schools	Schools Financial Audits	Not started
2021-22	Planned	Leicester City Council	Governance	Procurement of Contracts - Post Brexit	Not started
2021-22	Planned	Leicester City Council	Governance	Contract Audits	Not started
2021-22	Planned	Leicester City Council	IT & Information Assurances	IT Audits	Not started
2021-22	Planned	Leicester City Council	Grant Certifications	Leaseholder Accounts	Not started
2021-22	Planned	Leicester City Council	Systems & Governance	Tax Digital	Not started
2021-22	Planned	Leicester City Council	Grant Certifications	DfT Block Funding Capital Grant	Not started
2021-22	Planned	Leicester City Council	Grant Certifications	BSOG	Not started
2021-22	Planned	Leicester City Council	Grant Certifications	Ultra Low Emissions Vehicle (ULEV) Taxi Infrastructure Grant	Not started
2021-22	Planned	Leicester City Council	Grant Certifications	National Productivity and Investment Fund	Not started
2021-22	Planned	Leicester City Council	Grant Certifications	Transforming Cities Grant (TCF1)	Not started
2021-22	Planned	Leicester City Council	Governance	Critical Incidence	Not started
2021-22	Planned	Leicester City Council	Grant Certifications	Green Homes Grant	Not started
2021-22	Planned	Leicester City Council	Systems	Climate change and carbon emissions	Not started
2021-22	Planned	Leicester City Council	Systems & Governance	Direct Payments	Not started
2021-22	Planned	Leicester City Council	Significant Financial Systems	Major Financial Systems(MFS) Audit	Not started
2021-22	Planned	Leicester City Council	Grant Certifications	Disabled Facilities Capital Grant	Not started
2021-22	Planned	Leicester City Council	Contract & Governance	Taxi Contract	Not started
2021-22	Planned	Leicester City Council	Systems & Governance	Bus Lane Penalty Enforcements	Not started
2021-22	Planned	Leicester City Council	IT & Information Assurances	Tracking database	Not started
2021-22	Planned	Leicester City Council	Governance	Smoking Cessation	Not started
2021-22	Planned	Leicester City Council	Governance	LA involvement with Private Companies	Not started
2021-22	Planned	Leicester City Council	Systems	Section 106 Agreements	Not started
2021-22	Planned	Leicester City Council	Grant Certifications	LLEP - European Regional Development Fund (ERDF)	Not started
2021-22	Planned	Leicester City Council	Grant Certifications	LLEP - European Social Fund (ESF)	Not started
2021-22	Planned	Leicester City Council	Grant Certifications	BEIS Public Sector Decarbonisation Scheme	Not started
2021-22	Planned	Leicester City Council	Contract & Governance	Third Party Operators	Not started
2021-22	Planned	Leicester City Council	Systems & Governance	Recruitment System	Not started
2021-22	Planned	Leicester City Council	Systems & Governance	Digital projects	Not started
2021-22	Planned	Leicester City Council	Systems & Governance	Health & Safety function	Not started
2021-22	Planned	Leicester City Council	Systems & Governance	Residential Financial Assessment	Not started
2021-22	Planned	Leicester City Council	Grant Certifications	School Centred Initial Teacher Training (SCITT)	Not started
2021-22	Planned	Leicester City Council	IT & Information Assurances	NHS Health Check	Not started
2021-22	Planned	Leicester City Council	Grant Certifications	Active Travel Fund (Tranche 2)	Not started
2021-22	Planned	Leicester City Council	Governance	LLEP	Not started
2021-22	Planned	Leicester City Council	Grant Certifications	Basic Needs Grant	Not started
2021-22	Planned	Leicester City Council	Systems & Governance	Non Residential Financial Assessment	Not started

Leicester City Council : Audit follow ups as at 22.06.2021					
Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Title	Current Milestone
2018-19	Planned	Leicester City Council	Schools	Taylor Road Primary School	Closed
2018-19	Planned	Leicester City Council	Governance	Employee Code of Conduct	Closed
2019-20	Added to Plan	Leicester City Council	IT & Information Assurances	BACS & DD	Closed
2019-20	Planned	Leicester City Council	School	St Barnabas CE Primary	Closed
2019-20	Planned	Leicester City Council	Schools	Schools Audit - Hazel Primary School	Closed
2019-20	Planned	Leicester City Council	Governance	Financial Management & School Governance - SEND	In progress
2019-20	Planned	Leicester City Council	IT & Information Assurances	GDPR	In progress
2019-20	Planned	Leicester City Council	Governance	Financial Management & School Governance - LA Scheme for the	In progress
2019-20	Planned	Leicester City Council	Systems & Governance	Concessionary Travel	In progress
2019-20	Planned	Leicester City Council	Contracts	Social Value in Procurement	In progress
2019-20	Planned	Leicester City Council	Systems & Governance	Government Procurement Cards	In progress
Leicester City Council 2021-22 Audit Plan - Postponed or cancelled as at 31.05.2021					
Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Title	Current Milestone
2020-21	Planned	Leicester City Council	IT & Information Assurances	NHS Health Check	Rescheduled
2020-21	Planned	Leicester City Council	IT & Information Assurances	IT Audit - Automated Call Distribution Project - Unit 4 (Phase 2)	Rescheduled
2020-21	Planned	Leicester City Council	Systems	Recruitment System	Rescheduled
2020-21	Planned	Leicester City Council	Contract & Procurement	Contract Audits - Children Services - Contract Procedure Rules	Rescheduled
2020-21	Planned	Leicester City Council	Contract & Governance	Third Party Operators	Rescheduled
2020-21	Planned	Leicester City Council	Contract & Governance	Estates & Building Services	Postponed
2020-21	Planned	Leicester City Council	Grant Certifications	Ultra Low Emissions Vehicle (ULEV) Taxi Infrastructure Grant	Rescheduled
2020-21	Planned	Leicester City Council	Grant Certifications	Transforming Cities Grant	Rescheduled
2020-21	Planned	Leicester City Council	Systems	Section 106 Agreements	Rescheduled
2019-20	Planned	Leicester City Council	Risk Management	Fire risk in owned and occupied buildings	Rescheduled
2020-21	Planned	Leicester City Council	Schools	Management and governance of maintained schools	Rescheduled
2020-21	Planned	Leicester City Council	Risk Management	Risk Management Framework	Rescheduled
2020-21	Planned	Leicester City Council	IT & Information Assurances	Northgate	Rescheduled
2020-21	Planned	Leicester City Council	Schools	Schools Financial Audits	Rescheduled
2020-21	Planned	Leicester City Council	Grant Certifications	Basic Needs Grant	Rescheduled
2020-21	Planned	Leicester City Council	Systems	B&B Emergency Placement - Phase 2	Rescheduled
2020-21	Planned	Leicester City Council	Systems &	Concessionary Travel	Postponed
2020-21	Planned	Leicester City Council	Contract & Governance	Taxi Contract - Phase 2	Rescheduled
2020-21	Planned	Leicester City Council	IT & Information Assurances	IT Audit - Gladstones	Cancelled
2019-20	Planned	Leicester City Council	Significant Financial System &	Cash Collection & Reconciliation	Cancelled
2020-21	Planned	Leicester City Council	Risk Management	Brexit	Cancelled
2020-21	Planned	Leicester City Council	Contract & Governance	Clinical Governance	Cancelled
2020-21	Planned	Leicester City Council	Systems	Sports Services - spot checks	Cancelled

High Importance Recommendations – Position at 22nd June 2021

<u>Audit Title (Owner)</u>	<u>Summary of Finding(s) and Recommendation(s)</u>	<u>Management Response</u>	<u>Action Date (by end of)</u>	<u>Confirmed Implemented</u>
Reported July 2021				
Government Procurement Cards (Chief Accountant)	<p>This report was finalised in March 21, whilst no Hi Importance recommendations were raised, there were a number of medium recommendations which has resulted in a Partial assurance being given. Some of the key weaknesses related to:</p> <ul style="list-style-type: none"> • absence of receipts and VAT invoices • lack of managers approval of new applications and review of submitted claims • no checks to deactivate cards after staff have left • no review to ensure continued business need for the cards. 	<p>Management have agreed and implemented the recommendations and reminders have been sent to card holders to remind them of the guidance and expectations. Further internal audit follow-up is planned in Qtr2 to ensure improvements have been made.</p>	Sept 21	
Reported March 2021				
Social Value within Procurement (Head of Procurement Services)	<p>One High Importance recommendation was made in this audit report.</p> <p>Finding: Sample testing identified:</p> <ul style="list-style-type: none"> • Monitoring arrangement for Social Value (SV) Key Performance Indicators (KPIs) was not specified in the sample contracts • there was no evidence to confirm that contract managers were monitoring the suppliers to ensure they had delivered 	<p>The Head of Procurement is working with IT Procurement and Digital Transformation colleagues to procure a new system for which budget and approval to procure has been agreed. Preparation for procurement is almost complete and it is anticipated that a new system will be procured and implemented later in 2021</p>	<p>July 21</p> <p>Extended to Dec 21</p>	

	<p>their commitments and fulfilled their contractual obligations with regards to SV.</p> <p>Recommendation: The monitoring arrangements of SV - KPI's should be determined and included in the contract; these should be actively monitored by contract managers and periodically reported.</p>			
Reported September 2020				
Concessionary Travel (City Transport Director)	<p>Internal Audit assessed there to be partial assurance over the adequacy and effectiveness of governance arrangements and internal control in the operation of the concessionary travel scheme. The report included 4 High Importance recommendations, which are summarised below.</p> <p>Findings: The audit identified inconsistencies in the issuing and retention of processed application forms; outdated trading agreements which were not aligned to service delivery. Recharge and journal process was found to be weak; payments and journals were made without adequate supporting information.</p> <p>Recommendations included: 1. Review of the current arrangements for issuing passes which is consistent with the requirements of Information Governance Officer (IGO).</p>	<p>1. The online portal has been mostly developed and went through internal testing and external testing with some of the disability access group contacts. It has raised a few minor issues and a major one (to do with the uploading of photographs for passes) which have gone back to the developer for rectification. With the exception of the major report, this has been received positively by external testers and we hope to have a finished product live before the end of the year.</p> <p>2-4. There is no need to review the trading agreement as this is no longer in force. The detailed breakdowns from county will no longer be required as this process is now in house. Concessionary payments are continuing to be paid at pre-covid levels while the Covid Bus Services Support Grants (CBSSG) are still in place. There are separate audits being undertaken relating to the CBSSG grants.</p>	<p>Oct 20</p> <p>Extend to Mar 2021</p> <p>Extend to June 21</p>	Yes

	<p>2. A new Trading Agreement should be drawn up and terms and conditions adhered to.</p> <p>3. All charges should be verified to supporting evidence prior to authorising invoice payments.</p> <p>4. Working papers should be retained to support calculations for the year end estimates.</p>			
Reported June 2020				
Schools' Governance – (LA Scheme for Financing Schools)	<p>The Audit highlighted one High Importance recommendation:</p> <p>Finding: The Scheme for Financing has not been amended to reflect the mandatory revisions as notified in the DfE directed revisions dated 19/08/2015 or 22/03/2018.</p> <p>Recommendation: The Scheme for Financing Schools should be updated to reflect any directed revisions as notified by the DfE.</p>	The Scheme for financing is currently being updated with a view to completing by the end of August 21, this will include directed revisions as notified by the DfE	<p>June 20</p> <p>Dec 20</p> <p>June 21</p> <p>Extend to Aug 21</p>	
St Barnabas Cof E Primary School (Acting Headteacher)	A significant number of findings and recommendations were made in the Internal Audit report, which resulted in a partial assurance being given. The report included nine High Importance recommendations, which included areas of governance, budget monitoring, banking, payroll and business continuity plan. All the recommendations were agreed with the two Assistant	The Pay policy has been updated and approved at Full Governors Meeting on 11th March 2021.	<p>June 20</p> <p>Oct 20</p> <p>Dec 20</p> <p>Extend to June 21</p>	<p>1. Yes</p> <p>2. Yes</p>

	Headteachers, who in the absence of the Headteacher were managing the school at the time of the audit. Positive responses were received to the report; it was reported that a new Business Manager was due to be appointed, who would further assist in the implementation of recommendations.			
GDPR (Data Protection Officer - DPO)	<p>Within the earlier audit (Nov 18) it was confirmed that although Information Asset Registers (IAR) had been completed by relevant sections, gaps had yet to be identified – this could potentially lead to Data/Information breaches as gaps in compliance are not identified.</p> <p>Two High Importance recommendations were made:</p> <ol style="list-style-type: none"> 1. The Data Protection Officer should put forward a proposal to Senior Management if it is considered there is a need for additional resources to be allocated to undertake meetings with the Information Asset Owners in order to complete the IAR's and associated action plans. 2. Meetings with Information Asset Owners should be undertaken as a matter of urgency to identify possible gaps in meeting Data Protection Act requirements. These gaps should then form sectional action plans which the relevant section should be monitored against. 	<p>1. The Information Governance annual report had this as a recommendation, and it went to CMT in March 2021. The DPO is currently working with Managers and HR to put forward a proposal for resourcing and an organisational review for Information Governance.</p> <p>2. This action has not yet been completed, as cannot implement this recommendation until action 1) regarding additional resources is completed.</p>	<p>Jan 2021</p> <p>June 2021</p> <p>Extend to Sept 2021</p> <p>Dec 2021</p>	
Hazel Community Primary School (Headteacher)	A number of recommendations were made to the school, whilst none of these were individually categorised as High Importance,	Following the appointment of the new Business Manager, the school has continued to make progress with implementation of the	<p>April 20</p> <p>Oct 20</p>	Yes

	but collectively this resulted in a partial assurance. Some of the key areas of weakness included governance, financial planning, budgetary control, Income collection & banking and Data Security.	recommendations. Internal Audit are satisfied with the progress and closed this audit off.	Dec 20 Extend to June 2021	
Reported November 2019				
SEND Funding (Director Adult Social Care & Commissioning)	<p>This audit identified a number of significant areas for improvement; four High importance recommendations were included in the report:</p> <ol style="list-style-type: none"> 1. A lack of quality assurance checks to confirm that SEND funding was being spent appropriately, with a particular focus on value for money and children's outcomes. 2. No clear policy or process in place to allow the LA to identify and use clawback procedures to reclaim any unspent or incorrectly spent SEND funds. 3. Lack of robust reporting mechanisms to allow the Special Education Service (SES) team to track and trace changes to pupil circumstances in a timely manner, which can lead to overpayments being made to a school. 4. There was no clear reconciliation procedures to ensure payments made to individual providers are accurate and in line with approved rates. 	<p>All recommendations from the initial audit report were agreed by management. Testing undertaken to determine the progress made against the individual high importance recommendations, highlighted:</p> <ol style="list-style-type: none"> 1. Management have introduced and implemented several quality assurance controls to ensure SEND funding is being spent appropriately. These include a panel which meets monthly to review pupil provisions and the costs associated with this, as well as more detailed application forms for SEND funding, which require schools to justify and provide evidence for individual claims. 2. Management response received indicates that a review is under way and at the end of the consultation 'we write to all schools with a new scheme including roles and responsibilities for the LA and schools and include a provision for clawback for unspent funding and funding not spent specifically on the children it's been allocated to'. 3. Management have utilised the reporting function on the 'One system' to produce monthly reconciliations that enable the SES team to track and trace changes to pupil 	<p>Nov 19 June 20 Feb 21 Jun 21 Extended to Oct 21</p>	<ol style="list-style-type: none"> 1. Yes 2. Partially 3. Yes 4. Yes

		<p>circumstances in a timely manner. This allows the team to control costs and address any changes in funding arrangements on a child by child basis.</p> <p>4. Management have developed a three-way reconciliation procedure to ensure payments made are accurate and in line with approved rates, as per individual funding schedules.</p>		
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Audit/A&RC/210721/Follow-up/Appendix 2 HI Progress Report
Last Revised 22nd June 2021



Leicester City Council Audit & Risk Committee
21 July 2021

**Report of Leicestershire County Council's Head of Internal
Audit & Assurance Service**

Internal Audit Service – Annual Report 2020-21

Purpose

1. To provide the Audit & Risk Committee (the Committee) with an annual report on internal audit work conducted during 2020-21. The report also contains information on the internal audit function's conformance to professional standards, which provides an insight into its effectiveness.

Background

2. Part 2, 'Internal Control' of the Accounts and Audit Regulations (2015) provides at section 5 'Internal Audit' that, 'A relevant authority (Leicester City Council – 'the Council') must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
3. The relevant standards are the United Kingdom Public Sector Internal Audit Standards (PSIAS) revised in April 2017, and the guidance is provided by the accompanying CIPFA Local Government Advisory Note (LGAN).
4. The PSIAS require the Head of Internal Audit Service (HoIAS) to provide an annual report to 'the Board' timed to support the annual governance statement. The Council's Internal Audit Charter defines the Audit & Risk Committee as the Board and recognises that it has a duty on behalf of the Council, to approve the HoIAS' annual report and opinion, considering the level of assurance given over the Council's corporate governance arrangements and decide on appropriate actions.

5. Within its Constitution, the Council has delegated the function to provide an internal audit service to the Director of Finance. In January 2017, the City Mayor agreed to delegate the Council's internal audit function to Leicestershire County Council. The delegation was formally completed on 23 November 2017 and the management arrangements were transferred.

Summary

6. The HoIAS' annual report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment
 - b. a summary of the audit work from which the opinion is derived
 - c. a comparison of the work actually undertaken with the work that was planned to include a summary of the performance of the internal audit function
 - d. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)
 - e. any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement
7. The annual report for 2020-21 is provided in the **Appendix**. The report includes the HoIAS opinion. For 2020-21, the HoIAS reviewed actions taken to promote good governance, mitigate risk and retain control during the continuing coronavirus.

HoIAS opinion: The earliest months of the coronavirus significantly impacted normal routines and required that a number of functions needed to be provided differently and uniquely. There was a necessary shift from planned assurance work to more consulting and advisory on new service design and delivery. The requirement to certify covid grants was considerably higher than in previous years. However, no significant governance, risk management or internal control failings have come to the HoIAS' attention therefore reasonable assurance is given that the Council's control environment overall has remained adequate and effective.

The opinion will also be contained in the draft AGS.

8. **Annex 1** provides detail on how the annual internal audit opinion was formed, defines the types of audits, the components of the control environment and what it is designed to achieve, and provides a caveat on any opinion reached.
9. **Annex 2** lists the audits undertaken during the year. For assurance audits the individual audit opinion is given.
10. **Annex 3 (see link at end of report)** - is the position after the May 2021 light touch self-assessment conducted by the HoIAS of the

Service's general conformance to the PSIAS. Supporting notes are reported in bold font

11. **Annex 4 (see link at end of report)** - is the position after of the HoIAS light touch review of the Quality Assurance and Improvement Programme (QAIP). The Action Plan on the last page (bold font) shows two further improvements are required, but three small improvements have been moved forward.
12. Headlines from the report are: -
- a. Despite the impact of the coronavirus during the financial year, the HoIAS overall opinion on the adequacy and effectiveness of the control environment remained positive.
 - b. A majority of assurance audits conducted returned substantial assurance ratings. Those where less assurance was given will continue to be subject to further internal audit scrutiny.
 - c. Audits of grants (especially covid-19 related) were prominent
 - d. There's a relatively small carry over of work
 - e. Days provided decreased but the Council was compensated for this.
 - f. Customer satisfaction remained very positive
 - g. Additional assistance beyond the Internal Audit Plan was provided.
 - h. Development and training (especially in relation to auditing during covid-19) continued.
 - i. The Service generally conforms to PSIAS
 - j. The QAIP has been updated with some actions moved forward

Resource Implications

13. The Council pays for LCCIAS to provide its internal audit activity.

Equal Opportunities Implications

14. There are **no specific** equal opportunities implications contained within the annual summary of work undertaken.

Recommendations

15. The Audit & Risk Committee is recommended to: -
- a. Receive and approve the contents of the Annual Report and Opinion
 - b. Note that for the year ended 31 March 2021, the HoIAS has reported that the Council's control environment overall remained adequate and effective.
 - c. Note that the individual assignment opinions expressed together with any significant matters arising from internal audit work have been given due consideration when developing and reviewing the Authority's Annual Governance Statement for 2020-21.

- d. Note the outcomes of the HoIAS self-assessment against the PSIAS and QAIP.
- e. Make any recommendations it sees fit to the Chief Operating Officer/s151 officer, the Deputy Director of Finance or the Executive.

Background Papers

The Constitution of Leicester City Council
Accounts and Audit Regulations (Amendment) 2015
The Public Sector Internal Audit Standards (revised from April 2017)
The Internal Audit Plan 2020-21

Circulation under Sensitive Issues Procedure

None

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List of Appendices

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| Annex 1 | The HoIAS Annual Opinion on the overall adequacy and effectiveness of the control environment 2020-21 |
| Annex 2 | Summary of Internal Audit Service work supporting the HoIAS 2020-21 opinion |
| Annex 3 | Summary self-assessment of conformance with PSIAS – May 2021 – County Council report May 2021 |
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Leicester City Council Head of Internal Audit Service Annual Report 2020-21

**Neil Jones CPFA,
Head of Internal Audit & Assurance Service, Leicestershire
County Council**

22nd June 2021

Leicester City Council
Head of Internal Audit Service
Annual Report 2020-21

Background

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013 and revised from April 2017. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows: -
 - i. The Mission of Internal Audit
 - ii. Definition of Internal Auditing
 - iii. Core Principles for the Professional Practice of Internal Auditing
 - iv. Code of Ethics
 - v. International Standards for the Professional Practice of Internal Auditing
2. Additional requirements and interpretations for the local government sector have been inserted into the PSIAS and all principal local authorities must make provision for internal audit in accordance with the PSIAS.
3. The objectives of the PSIAS are to: -
 - a. define the nature of internal auditing within the UK public sector
 - b. set principles for carrying out internal audit in the UK public sector
 - c. establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations
 - d. establish the basis for the evaluation of internal audit performance and to drive improvement planning
4. The PSIAS require the Head of Internal Audit Service (HoIAS) to provide an annual report to 'the Board' (Audit & Risk Committee) timed to support the annual governance statement.
5. The PSIAS state that the annual report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment (i.e. its framework of governance, risk management and internal control) and disclosure of any qualifications to the opinion, together with the reasons for the qualification
 - b. a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies) and disclosure of any impairments or restriction in scope
 - c. a comparison of the work actually undertaken with the work that was planned including a summary of the performance of the internal audit function against its performance measures and targets
 - d. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP) and progress against any improvement plans resulting from a QAIP external assessment.
 - e. any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

The Annual Internal Audit Opinion on the Adequacy and Effectiveness of Leicester City Council's Control Environment

6. **Annex 1** provides detail on how the annual internal audit opinion was formed, explains the types of audits undertaken, the components of the control environment and what it is designed to achieve, and provides a caveat on any opinions reached.
7. The opinion is based on an objective assessment of the results of individual audits undertaken, actions by management thereafter and the professional judgement of the HoIAS in evaluating other related activities including the Council's plans and responses received. For 2020-21, the HoIAS reviewed actions taken to promote good governance, mitigate risk and retain control throughout the continuing coronavirus. The following opinion has been reached:

The earliest months of the coronavirus significantly impacted normal routines and required that a number of functions needed to be provided differently and uniquely. There was a necessary shift from planned assurance work to more consulting and advisory on new service design and delivery. The requirement to certify covid grants was considerably higher than in previous years. However, no significant governance, risk management or internal control failings have come to the HoIAS' attention therefore reasonable assurance is given that the Council's control environment overall has remained adequate and effective.

8. At the 31st May 2021, the outcomes of 14 audits (two first raised in the 2019-20 plan) hadn't been concluded with management. Their outcomes will not affect the opinion given.

A summary of the audit work from which the opinion is derived

9. **Annex 2** lists the audits and other work undertaken by LCCIAS during the year and where appropriate contains the individual audit opinion.
10. Eleven prior year audits were concluded. Progressing the agreed 2020-21 plan was affected by the impacts of covid and as such a number of assurance audits were postponed and replaced by reactive consulting/advisory work and a significant increase in grant certifications. This was common across all local authorities.
11. Overall, for work completed at 31 May, 16 audits returned a 'substantial' assurance' rating, meaning the controls in place to reduce exposure to risks to achieving the system's objectives were well designed and were being operated effectively.
12. 7 audits resulted in partial assurance ratings. This was because either specific high importance (HI) recommendations (or a combination of several important recommendations) were identified denoting there was either an absence of, or a weakness in control and achievement of the service's objectives was open to material risk exposure. HI recommendations/partial assurance ratings are reported in summary to the Audit & Risk Committee

(the Committee) and they stay in the Committee's domain until the HoIAS has confirmed (by obtaining evidence or even specific re-testing) that action has been implemented. The HoIAS remains on the whole satisfied that senior management and Members pay attention to the implementation of HI recommendations/partial assurance ratings. However, he will actively monitor and report slippage in implementation which might indicate increasing pressures and strains on the control environment.

13. 'Consulting' type audits were undertaken. These can be defined as, *'Advisory and related client service activities, the nature and scope of which are intended to add value and improve an organisation's governance, risk management and control processes'*.
14. All but 1 of 4 audits of 'significant financial systems' (BACS) returned positive assurance ratings.
15. Because of the significant pressures on ICT staff, the regular key ICT controls work was agreed to be postponed but replaced by work which confirmed key ICT risks associated with the pandemic had been considered and action was taken where required to support the IT infrastructure and the demand for more remote working.
16. Because of their closures and covid restrictions, no maintained schools were audited.
17. 23 grants and other claims and returns were reviewed and certified as accurate. The covid-19 related grants incurred a substantial time input.
18. 11 follow up audits were conducted. This is invariably where high importance (HI) recommendations or other partial assurance ratings have previously been made. Progress against implementing HI recommendations/partial ratings is monitored and reported to Committee each meeting. Some 6 follow ups remained in progress at 31st May 2021.
19. The PSIAS require that the HoIAS should disclose where reliance is placed on work by other assurance bodies. No reliance has been placed in 2020-21.

A comparison of work undertaken with work planned including a summary of the performance of the internal audit function

20. The tables below show performance both in terms of number of audits and days allocated.

Table 1: Overall performance against 2020-21 internal audit plan

Position as at 31 May 2021	<u>Total</u>	<u>Complete</u>	<u>Draft issued</u>	<u>In progress</u>	<u>Postpone or Cancel</u>
Assurance audits	57	23	4	7	23
Consulting audits	5	5	-	-	-
Grants/other	26	23	-	3	-
Follow ups	11	5	-	6	-
Total	99	56	4	16	23

21. Internal audit plans are increasingly short-term statements of intent rather than guaranteed coverage and (as 2020-21 proved without doubt) they need to be flexible and retain contingency to adapt to changes in risk and priorities. Dealing with the unknowns and re-prioritising through the pandemic, put significant pressure on senior management, which meant that on occasions they were unable to respond to the Internal Audit Service which resulted in delays in starting some audits, for some audits management requested postponement until the pandemic subsided. The 2020-21 plan contained several potential areas for audit that for a variety of reasons didn't come to fruition. Some have been included in the 2021-22 plan.
22. Total 'productive' days provided for 2020-21 (1st April 2020 to 31st March 2021) work was recorded as 634. This is regarded as minimum though since some time may have been miscoded. Circumstances for 2020-21 were unique, but the HoIAS cannot allow days provided to be so low again as it was only just sufficient coverage to be able to form an opinion. A small reduction in payment was agreed with the Deputy Director of Finance.

Results were: -

<u>Function</u>	<u>2019-20</u>	<u>2020-21</u>
Audits (assurance, consulting, investigations)	706	515
Client management – includes committees	111	119
Total	817	634

23. Almost half of the time was provided by senior/experienced staff as follows: -

<u>Position</u>	<u>Days</u>	<u>%</u>
HolIAS & Audit Managers	175	28
Senior Auditors & ICT Auditor	127	20
Other	332	52
Total	634	100

24. There continues to be encouraging 'crossover' of 'original' County staff undertaking City based audits (and vice versa). Agency staff conducted City audits. Synergy was achieved i.e. where the same audit has been undertaken at City and County (especially covid grants).

25. Officers of LCCIAS regularly liaise with the Council's risk, counter fraud, procurement and information governance leads, shares consultation responses and governance and risk research and publications and feeds back information gathered from other local authorities to enable comparisons.
26. Of the seventeen customer satisfaction questionnaires issued, twelve were returned and all but one were satisfied with the audit process, a 92% satisfaction rate.

A statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)

27. The HoIAS undertook a light touch self-assessment of LCCIAS's conformance to the PSIAS to confirm that the County Council's internal audit activity generally conforms with the International Standards for the Professional Practice of Internal Auditing. Notes supporting the self-assessment, and other changes, are reported in bold font in **Annex 3**.
28. The HoIAS also light touch reviewed the service's Quality Assurance and Improvement Programme (QAIP) and found that two new recommendations for improvement should be added, but three small improvements could be moved forward. All changes to the action plan on the last page of **Annex 4** are reported in bold font.
29. PSIAS Standard 1322 requires the HoIAS to confirm that whether there were any significant deviations from the PSIAS. Because of the impact of the coronavirus, 6 internal audit staff were redeployed to County Council operational services. The effect on overall resource available was reflected in a small discount being offered to and accepted by the City Council.

Any issues the HoIAS judges particularly relevant to the preparation of the Annual Governance Statement (AGS)

30. The HoIAS was provided with assurances that the interim arrangements for the newly appointed Chief Operating Officer to retain s151 responsibilities didn't need to be reflected in the AGS, and also that the AGS adequately reflected any governance changes brought about by covid-19.

Neil Jones CPFA
Head of Internal Audit & Assurance Service
LCCIAS

22nd June 2021.

The Head of Internal Audit Service's Annual Opinion on the overall adequacy and effectiveness of Leicester City Council's control environment 2020-21

**Neil Jones CPFA, Head of Internal Audit & Assurance Service,
Leicestershire County Council**

21st June 2021

Background

The Head of Internal Audit and Assurance Service, Leicestershire County Council undertakes the role and responsibilities of Leicester City Council's (the Council's) Head of Internal Audit Service (HoIAS). The HoIAS manages Leicestershire County Council's Internal Audit Service (LCCIAS). In April 2018, LCCIAS was independently externally assessed as generally conforming (the top rating) to the Public Sector Internal Audit Standards (the PSIAS). The PSIAS require the HoIAS to give an annual opinion on the overall adequacy and effectiveness of the Council's control environment (its framework of governance, risk management and control). The PSIAS definition of the control environment is found at the end of this document, along with further explanation from the Institute of Internal Auditors about what an effective system of internal control facilitates.

The HoIAS annual opinion is **macro**-assurance over a defined period (financial year 2020-21) and is based upon a combination of:

- An objective assessment based on the results of individual audits undertaken and actions taken by management thereafter. Individual internal audit opinions on what level of assurance can be given as to whether risk is being identified and adequately managed are formed by applying systematic grading to remove any elements of subjectivity. **Annex 2** lists the audits and other work undertaken during the year and, where appropriate, the individual audit opinion. Individual audit engagements provide targeted **micro**-assurance. High Importance Recommendations/Partial Assurance Ratings
- The HoIAS role in preparing for, attending, reporting to and his observations of the work of the Audit & Risk Committee including engagement in specific training provided.
- The professional judgement of the HoIAS based on his knowledge, experience and evaluation of other related activities. This provides a holistic, strategic insight into the City Council's control environment.
- Specifically for 2020-21, the HoIAS' views on the Council's responses to the continuing coronavirus throughout the financial year

The results of the above, when combined, form the basis for the HoIAS opinion on the overall adequacy of the Council's control environment (see definitions). However, the caveat at the end of the document explains what internal control cannot do, i.e. no system of internal control can provide absolute assurance against material misstatement or loss, nor can LCCIAS give absolute assurance, especially given its limited resource. The work of LCCIAS is intended only to provide reasonable assurance on the adequacy of the control environment based on the work undertaken and known facts.

Governance related internal audit work

Governance arrangements were included in several audits including completing the range of audits covering Financial Management and School Governance, GDPR compliance, and the LLEP governance arrangements.

The HoIAS attends the Audit & Risk Committee (the Committee) to present plans and reports on the internal audit activity, which enables him to gauge officer and Member level governance at first hand and observe the training delivered to support their knowledge and role.

The HoIAS has reported on developments in local (external) audit including the Redmond Review and the revised Code of Audit Practice and explained how these might affect governance at the Council.

The HoIAS has discussions with the Director of Finance and the City Barrister & Head of Standards on governance issues and related internal audit aspects. The HoIAS has attended Management Teams when required.

Covid-19 specific

The HoIAS has continued to monitor the Council's governance responses during the coronavirus stages. He has reviewed minutes and webinars of the Overview Select Committee's updates to members. He reviewed the MHCLG report following a Rapid Stocktake of Lessons Learnt and Good Practice in the Management of Local Covid-19 Outbreaks in August 2020 and took assurance from the report's positive outcomes. The HoIAS was provided with assurances that the AGS adequately reflected a CIPFA suggestion to report any governance changes brought about by covid-19.

Risk management related internal audit work

A range of audits planned and conducted were 'risk based' i.e. ensuring that the Council's management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure.

Other risk management work was undertaken in consulting audits and developments to the overall control environment.

Covid-19 (and EU exit) specific

Overview Select Committee and Audit & Risk Committee reports provided assurance on the Council's multitude of risk assessments undertaken and that there had been early activation of its corporate business continuity plan. Additionally, the Audit & Risk Committee received a report on the Council's EU exit risk mitigation.

Financial (and ICT) Controls related internal audit work

Several audits were undertaken on areas of key financial systems – debtors, treasury, payroll and BACS. A significant amount of internal audit time was focussed on certifying grant claims, more than had been planned due to covid grants. All grants (and other returns) audited met their conditions to be certified.

Covid-19 specific

The rapid onset of the coronavirus significantly impacted the Council's IT services, resulting in a massive effort within a very short time to ensure staff could work at home. The regular planned annual key ICT controls audit was postponed (and so a formal opinion could not be formed on whether the wider ICT risks were being adequately mitigated). Nevertheless the ICT Auditor undertook some work which confirmed key ICT risks associated with the pandemic had been considered and action was taken where required to support the IT infrastructure and the demand for more remote working

Continued...

The Deputy Director of Finance and Chief Accountant invited internal audit to review and advise on controls in alternative service delivery models e.g. covid business grants (including extended local lockdown business grants) and supplier payments. Evidence was provided of the policy and procedures for controlling emergency procurement routines.

HolAS opinion: The earliest months of the coronavirus significantly impacted normal routines and required that a number of functions needed to be provided differently and uniquely. There was a necessary shift from planned assurance work to more consulting and advisory on new service design and delivery. The requirement to certify covid grants was considerably higher than in previous years. However, no significant governance, risk management or internal control failings have come to the HolAS' attention therefore reasonable assurance is given that the Council's control environment overall has remained adequate and effective.

Definitions

The revised 2017 Public Sector Internal Audit Standards (the PSIAS) define the following: -

Assurance audit

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

Consulting audit

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

Risk Management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.

Control

Actions taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. It includes the following:

- Integrity and ethical values
- Management's philosophy and operating style
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

The IIA defines the control environment as the foundation on which an effective system of internal control is built and operated in an organisation that strives to achieve its strategic objectives, provide reliable financial reporting to internal and external stakeholders, operate its business efficiently and effectively, comply with all applicable laws and regulations, and safeguard its assets

Caveat

The Financial Reporting Council in an Auditing Practices Board briefing paper, 'Providing Assurance on the Effectiveness of Internal Control' explains what internal control cannot do, namely: -

'A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees or others, management overriding controls and the occurrence of unforeseen circumstances. A sound system of internal control therefore provides reasonable, but not absolute assurance that an organisation will not be hindered in achieving its objectives, or in the orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen. A system of internal control cannot, however, provide protection with certainty against an organisation failing to meet its objectives, or all material errors, losses, fraud or breaches of laws and regulations'.

Annex 2: Summary of IA work supporting the HoIAS opinion as at 31st May 2021

Finalised as at 31.05.2021					
Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Audit Title	Assurance Level
2018-19	Planned	Leicester City Council	Systems	Staff Absence	Substantial Assurance
2019-20	Planned	Leicester City Council	Significant Financial System	Concerto	Substantial Assurance
2019-20	Planned	Leicester City Council	Systems	Estates & Building Services - Sale of Council Land & Property	Substantial Assurance
2020-21	Added to Plan	Leicester City Council	Systems	COVID 19: Supplier Payments	Substantial Assurance
2020-21	Planned	Leicester City Council	Systems & Governance/IT &	B&B Emergency Placement - Phase 1	Substantial Assurance
2020-21	Added to Plan	Leicester City Council	Systems	COVID 19: Business Grant Funding	Substantial Assurance
2020-21	Planned	Leicester City Council	Systems	Sports Services - Partnership Arrangements	Substantial Assurance
2020-21	Planned	Leicester City Council	Significant Financial Systems	Major Financial Systems(MFS) Audit - Payroll	Substantial Assurance
2020-21	Added to Plan	Leicester City Council	Grant Certifications	COVID 19- Lockdown Business Support Grant	Substantial Assurance
2020-21	Planned	Leicester City Council	Systems	Safety Camera	Substantial Assurance
2020-21	Planned	Leicester City Council	Governance	Leicester & Leicestershire Enterprise Partnership	Substantial Assurance
2020-21	Added to plan	Leicester City Council	Grant Certification	COVID 19: Winter Grant	Substantial Assurance
2020-21	Planned	Leicester City Council	Significant Financial Systems	Major Financial Systems(MFS) Audit - Debtors	Substantial Assurance
2020-21	Planned	Leicester City Council	Significant Financial Systems	Major Financial Systems(MFS) Audit - Treasury Management	Substantial Assurance
2020-21	Planned	Leicester City Council	Systems	Domiciliary Care	Substantial Assurance
2020-21	Added to Plan	Leicester City Council	Grant Certifications	COVID 19 : Self Isolation Payment Scheme - Phase 2	Substantial Assurance
2019-20	Planned	Leicester City Council	School	Ellesmere College	Partial Assurance
2019-20	Planned	Leicester City Council	Contract	Contract Audit - PAN 1068 Construction Framework Contract	Partial Assurance
2019-20	Planned	Leicester City Council	Systems & Governance	Concessionary Travel	Partial Assurance
2019-20	Added to plan	Leicester City Council	IT & Information Assurances	BACS & DD	Partial Assurance
2019-20	Planned	Leicester City Council	Contract	Social Value in Procurement	Partial Assurance
2019-20	Added to plan	Leicester City Council	Systems	Procurement Card	Partial Assurance
2020-21	Planned	Leicester City Council	IT & Information Assurances	GDPR	Partial Assurance
2020-21	Planned	Leicester City Council	Grant Certifications	Growth Hub	Certified
2020-21	Planned	Leicester City Council	Grant Certifications	SET-UP - Claim 1	Certified
2020-21	Planned	Leicester City Council	Grant Certifications	Troubled Families - Claim 1	Certified
2020-21	Planned	Leicester City Council	Grant Certifications	Adriatic Land 7 Limited Service Charges	Certified
2020-21	Planned	Leicester City Council	Grant Certifications	Local Transport Revenue Funding (Blue Badge)	Certified
2020-21	Added to Plan	Leicester City Council	Grant Certifications	COVID 19: Covid Bus Services Support Grant (CBSSG)	Certified
2020-21	Added to Plan	Leicester City Council	Grant Certifications	Additional Growth Hub Funding for LEPS in FY2019–20	Certified
2020-21	Planned	Leicester City Council	Grant Certifications	Disabled Facilities Capital Grant	Certified
2020-21	Planned	Leicester City Council	Grant Certifications	Leaseholder Accounts	Certified
2020-21	Planned	Leicester City Council	Grant Certifications	National Productivity and Investment Fund	Certified
2020-21	Planned	Leicester City Council	Grant Certifications	Local Transport Capital Funding	Certified
2020-21	Planned	Leicester City Council	Grant Certifications	BSOG	Certified
2020-21	Planned	Leicester City Council	Grant Certifications	SEEV4	Certified
2020-21	Planned	Leicester City Council	Grant Certifications	Troubled Families Claim 2	Certified
2020-21	Planned	Leicester City Council	Grant Certifications	Troubled Families Claim 3	Certified
2020-21	Planned	Leicester City Council	Grant Certifications	School Centred Initial Teacher Training (SCITT)	Certified
2020-21	Added to Plan	Leicester City Council	Grant Certifications	COVID 19: CBSSG (Phase 2 - Restart)	Certified
2020-21	Added to Plan	Leicester City Council	Grant Certifications	COVID 19: Travel , Demand Management Grant	Certified
2020-21	Planned	Leicester City Council	Grant Certifications	SET-UP - Claim 2	Certified
2020-21	Planned	Leicester City Council	Grant Certifications	Troubled Families Claims 4	Certified
Finalised as at 31.05.2021					
Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Audit Title	Assurance Level

2020-21	Added to Plan	Leicester City Council	Grant Certifications	Additional Dedicated Home to School & College Transport (Tranche 1)	Certified
2020-21	Added to Plan	Leicester City Council	Grant Certifications	COVID 19: Emergency Active Travel Fund	Certified
2020-21	Added to Plan	Leicester City Council	Grant Certifications	COVID 19 Local Authority Enforcement and Compliance Grant	Certified
2020-21	Planned	Leicester City Council	Contract & Governance	Taxi Contract - Phase 1	Complete
2019-20	Planned	Leicester City Council	Contract	EBS - Greene Belle	Complete
2019-20	Planned	Leicester City Council	IT & Information Assurances	Key ICT Controls (IT Assurances during Covid-19)	Complete
2020-21	Added to Plan	Leicester City Council	Grant Certifications	COVID 19 : Self Isolation Payment Scheme - Phase 1	Complete
2020-21	Planned	Leicester City Council	Systems & Governance	Direct Payments	Complete
Status as at 31.05.2021					
Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Audit Title	Current Milestone
2019-20	Planned	Leicester City Council	Compliance Audit	Planning Enforcement	Revised Draft
2020-21	Planned	Leicester City Council	Contract & Procurement	Contract Audit - Highways Contract	Draft Report
2020-21	Planned	Leicester City Council	Systems	Disabled Facilities System Review	Draft Report
2020-21	Planned	Leicester City Council	IT & Governance	BACs & DD (Additional work)	Draft Report
2019-20	Planned	Leicester City Council	Grant Certification	Regional Growth Fund - RGF 3	Work in Progress
2020-21	Planned	Leicester City Council	Systems	Early Years	Work in Progress
2020-21	Planned	Leicester City Council	IT & Information Assurances	Data analytics	Work in Progress
2020-21	Planned	Leicester City Council	Contract & Procurement	Contract Audit - Housing	Work in Progress
2020-21	Planned	Leicester City Council	Contract & Governance	Construction contracts	Work in Progress
2020-21	Planned	Leicester City Council	IT & Governance	Digital Transformation	Work in Progress
2020-21	Planned	Leicester City Council	Governance & risk management	Climate change and carbon emissions	Work in Progress
2020-21	Planned	Leicester City Council	IT & Information Assurances	IT Audits - Key ICT controls	Work In Progress
2020-21	Added to Plan	Leicester City Council	Grant Certifications	COVID 19: Additional Dedicated Home to School & College Transport - Tranche 2&3	Work In Progress
2020-21	Added to Plan	Leicester City Council	Grant Certifications	COVID 19: CBSSG (Restart - Tranche 3/4/5)	Work In progress

Audit follow ups as at 18.06.2021					
Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Title	Current Milestone
2018-19	Planned	Leicester City Council	Schools	Taylor Road Primary School	Closed
2018-19	Planned	Leicester City Council	Governance	Employee Code of Conduct	Closed
2019-20	Added to Plan	Leicester City Council	IT & Information Assurances	BACS & DD	Closed
2019-20	Planned	Leicester City Council	School	St Barnabas CE Primary	Closed
2019-20	Planned	Leicester City Council	Schools	Schools Audit - Hazel Primary School	Closed
2019-20	Planned	Leicester City Council	Governance	Financial Management & School Governance - SEND	In progress
2019-20	Planned	Leicester City Council	IT & Information Assurances	GDPR	In progress
2019-20	Planned	Leicester City Council	Governance	Financial Management & School Governance - LA Scheme for the	In progress
2019-20	Planned	Leicester City Council	Systems & Governance	Concessionary Travel	In progress
2019-20	Planned	Leicester City Council	Contracts	Social Value in Procurement	In progress
2019-20	Planned	Leicester City Council	Systems & Governance	Government Procurement Cards	In progress
Postponed or cancelled as at 31.05.2021					
Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Title	Current Milestone
2019-20	Planned	Leicester City Council	Risk Management	Fire risk in owned and occupied buildings	Postponed
2020-21	Planned	Leicester City Council	IT & Information Assurances	NHS Health Check	Postponed
2020-21	Planned	Leicester City Council	IT & Information Assurances	IT Audit - Automated Call Distribution Project - Unit 4 (Phase 2)	Postponed
2020-21	Planned	Leicester City Council	Systems	Recruitment System	Postponed
2020-21	Planned	Leicester City Council	Contract & Procurement	Contract Audits - Children Services - Contract Procedure Rules	Postponed
2020-21	Planned	Leicester City Council	Contract & Governance	Third Party Operators	Postponed
2020-21	Planned	Leicester City Council	Contract & Governance	Estates & Building Services	Postponed
2020-21	Planned	Leicester City Council	Grant Certifications	Ultra Low Emissions Vehicle (ULEV) Taxi Infrastructure Grant	Postponed
2020-21	Planned	Leicester City Council	Grant Certifications	Transforming Cities Grant	Postponed
2020-21	Planned	Leicester City Council	Systems	Section 106 Agreements	Postponed
2020-21	Planned	Leicester City Council	Schools	Management and governance of maintained schools	Postponed
2020-21	Planned	Leicester City Council	Risk Management	Risk Management Framework	Postponed
2020-21	Planned	Leicester City Council	IT & Information Assurances	Northgate	Postponed
2020-21	Planned	Leicester City Council	Schools	Schools Financial Audits	Postponed
2020-21	Planned	Leicester City Council	Grant Certifications	Basic Needs Grant	Postponed
2020-21	Planned	Leicester City Council	Systems	B&B Emergency Placement - Phase 2	Postponed
2020-21	Planned	Leicester City Council	Systems &	Concessionary Travel	Postponed
2020-21	Planned	Leicester City Council	Contract & Governance	Taxi Contract - Phase 2	Postponed
2019-20	Planned	Leicester City Council	Significant Financial System &	Cash Collection & Reconciliation	Cancelled
2020-21	Planned	Leicester City Council	IT & Information Assurances	IT Audit - Gladstones	Cancelled
2020-21	Planned	Leicester City Council	Risk Management	Brexit	Cancelled
2020-21	Planned	Leicester City Council	Contract & Governance	Clinical Governance	Cancelled
2020-21	Planned	Leicester City Council	Systems	Sports Services - spot checks	Cancelled



Audit and Risk Committee 21st July 2021

Report of Leicestershire County Council's Head of Internal Audit & Assurance Service

Further update on developments in local (external) audit arrangements

PURPOSE OF REPORT

1. The purpose of this report is to provide the Audit and Risk Committee (the Committee) with a further update on developments in local (external) audit arrangements, that are associated with the Committee's responsibilities.

RECOMMENDATIONS

2. This report is for information only

SUMMARY

3. The Committee has previously received three reports following the Ministry of Housing Communities and Local Government's (MHCLG) requirement for an independent review (led by Sir Tony Redmond) of the effectiveness of local (external) audit and the transparency of local authority financial reporting.
4. The first report on 25th November 2019 explained there was a formal call for views and that the Council's Director of Finance would respond.
5. At its meeting on 24th November 2020, the Committee received a further report and a short presentation summarising the Redmond review's key findings, outlining its 23 recommendations, how the report was being taken forward and communicated to stakeholders and what the next steps were, including awaiting a formal response from MHCLG which had commissioned the review.
6. At its meeting on 17th March 2021, the Committee was informed that the MHCLG had formally responded (December 2020) to the review report. The response was mostly positive and the MHCLG agreed to work with a wide range of key stakeholders to deliver the review's recommendations. However, a key area of disagreement was the recommendation to develop and implement a new body, the Office of Local Audit and Regulation (OLAR), to be created to provide systems leadership and manage, oversee, and regulate local audit. This was rejected primarily because creating a new body would

have required new legislation from central government. Nevertheless, MHCLG recognised certain areas needed to be addressed so it proposed further engagement in the Spring.

REPORT

Redmond review into local (external) audit – Spring update report

7. On 19th May 2021, the MHCLG wrote to all local authority Chief Executives informing that it had published its update report that was promised in its December 2020 response. The full report is found here: -

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-spring-update/local-authority-financial-reporting-and-external-audit-spring-update>
8. The report provided an update on the MHCLG's progress with implementing the Government's response to the Redmond review, including on the delivery of measures to support immediate market stability and towards implementation of the other recommendations.
9. It set out the Government's views on systems leadership for local audit. The Government agrees that a clearly accountable system leader with overarching responsibility is needed to make sure the local audit framework operates in a coherent and joined up manner, however it does not believe a new arm's length body is needed to achieve this. The Government's view is that the new Audit, Reporting and Governance Authority (ARGA), being established to replace the Financial Reporting Council (FRC), as part of the Department for Business, Energy & Industrial Strategy (BEIS) broader corporate audit reforms, would be best placed to take on this role. The FRC already undertakes the core functions relating to the audit quality framework necessary for a single responsible body to have. Establishing ARGA as system leader for the local audit framework would also ensure alignment with, and harness the positive impact of, the broader audit reforms.
10. To ensure the new regulator acquires the necessary focus and expertise on local audit, a standalone unit will be established within ARGA. Development and maintenance of The Code of Audit Practice will transfer from the National Audit Office to ARGA, however the latest Code (introduced in 2020), which includes the new Value for Money commentary, will be retained. ARGA will not conduct procurement or contract management as this could create a conflict of interest. Therefore, the new arrangements will encompass a separate appointing body. MHCLG confirmed that Public Sector Audit Appointments Ltd (PSAA) will continue as the appointing body for local audit, in charge of procurement and contract management for local government external auditors, with commercial support from MHCLG for the next procurement.
11. As the proposed reforms to the local audit framework will take time, MHCLG will take an increased leadership role in the interim, including setting up and chairing a Liaison Committee of key stakeholders, that will oversee the

governance of the new audit arrangements and ensure they are operating effectively, which Redmond recommended be created.

12. The Government intends to launch a public consultation on the proposals ahead of summer recess.
13. Two further MHCLG consultations recently occurred: -
 - a. A consultation proposing changes to the fee setting and fee variation arrangements set out in the Local Audit (Appointing Person) Regulations 2015 to provide additional flexibility to the appointing person for principal bodies (PSAA) to reflect the changing nature of the local audit market, closed on 1st June.
 - b. A consultation seeking views on the most appropriate methodology for allocating £15 million additional funds to assist councils to meet the rise in audit fees and new burdens resulting from the implementation of additional requirements closed on 18th May.
14. The Government's proposals on local audit have gained a qualified welcome from stakeholders although concerns around audit supply and market instability remain. Additionally there are questions around: -
 - a. Will the standalone unit within ARGA have the specialist skills and capacity it needs?
 - b. To what extent will the standalone unit be able to tailor ARGA's corporate approach to the application of International Auditing Standards, to local authority audits?
 - c. Will the PSAA succeed in securing audit contracts that are both competitively priced and enable audit suppliers to deliver audits that local authorities and the public deserve?

Local (external) audit arrangements from 2023 and beyond

15. Within its Terms of Reference under the section 'External Audit', the Committee has a responsibility, 'To consider, comment upon and note the arrangements chosen by the Council to select and appoint its statutory external auditor'.
16. During Autumn 2021 all local government and police bodies will need to make important decisions about their external audit arrangements for the period commencing from the financial year 2023/24. In relation to appointing auditors local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by Public Sector Audit Appointments Limited (PSAA).
17. On 10th June PSAA launched its draft prospectus for 2023 and beyond which provides an introduction to the PSAA national scheme and invites views and comments from local bodies and other interested parties in relation to the aims of the scheme and how it needs to develop going forward. Details can be found at: -

<https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/prospectus-2023-and-beyond/draft-prospectus-for-2023-and-beyond/page/7/>

18. The prospectus explains in some detail how the audit market quickly destabilised starting in 2018 when a series of financial crises and failures in the private sector gave rise to questioning about the role of auditors and the focus and value of their work. In rapid succession there has been the results of four independent reviews commissioned by Government including Redmond's review of local authority financial reporting and external audit. Much of this has been explained to the Committee in previous reports.
19. It is PSAA's view that the audit market will continue to be relatively unstable and difficult to predict for a further period of time as the Government continues to develop and implement its policy response to the four independent reviews; as further regulatory pressure is applied; and as firms respond and adapt. It considers that local government audit will not be immune from these difficulties.
20. The prospectus includes plans to adjust the procurement ratio between quality and costs from an equal 50:50 to 80:20 (i.e. the focus of appointing external auditors will be clearly on quality, not cost). This change in approach would be supported by key performance indicators on audit approach, quality assurance arrangements, resourcing, capacity and capability. There is some nervousness in the local government sector about this proposal, in that whilst quality is clearly important, costs must not get out of hand.
21. Consultation on the prospectus closes on 8th July.

Timetable for decisions

22. A further report will be brought to the Committee once the consultations are concluded.

FINANCIAL, LEGAL AND OTHER IMPLICATIONS

Financial Implications

23. None directly, but the Audit and Risk Committee is a key component of the Council's governance framework. It provides those charged with governance independent assurance on the on the adequacy and integrity of the financial reporting and governance processes. By monitoring the quality and effectiveness of both external and internal audit, it makes an important contribution to ensuring that effective assurance arrangements are in place.
Colin Sharpe, Deputy Director of Finance, ext. 37 4081

Legal Implications

24. The Council may need to implement any further statutory requirements arising from the post implementation review of the audit framework and financial reporting elements of the Local Audit and Accountability Act 2014. *Kamal Adatia, City Barrister & Head of Standards, x37 1401*

Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph references within supporting information
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Climate Change	No	
Crime and Disorder	No	
Human Rights Act	No	
Elderly/People on Low Income	No	
Corporate Parenting	No	
Health Inequalities	No	
Risk Management	No	

8. BACKGROUND PAPERS – LOCAL GOVERNMENT ACT 1972

REPORT AUTHOR

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DRAFT Audit & Risk Committee Workplan 2021/22

Workplan Item	Author	Frequency	Purpose
July 2021			
Training Session - Audit Opinion including Value for Money			
Schedule of Meetings	Deputy Director of Finance	Annual	Committee to Note
External Audit Plan 2021-22 & Informing the Audit Risk Assessment	Grant Thornton, External Auditor	Annual	Committee to note
	Chief Operating Officer (S151)/		
Draft Statement of Accounts & Annual Governance Statement	Chief Accountant	Annual	Committee to note
Regulation of Investigatory Powers Act 2000 - Bi-Annual Performance Report January 2021 – June 2021	Head of Information Governance and Risk	Bi-Annual	Committee to Note
National Fraud Initiative Update (delayed from March 2021)	Corporate Investigations Manager	Mid Year	Committee to Note
Counter Fraud Annual Report 2020/21	Corporate Investigations Manager	Annual	Committee to Note
Draft of the Committee's Annual Report to Council 2020/21 (ensure on Council agenda)	Deputy Director of Finance	Annual	Approval
Internal Audit 2020/21 Q4 update	Head of Internal Audit	Periodic	Committee to note
Internal Audit Service – Annual Report 2020/21	Head of Internal Audit	Annual	Committee to note
Further update on developments in local (external) audit arrangements	Head of Internal Audit	Periodic	Committee to note
September 2021			
Training Session			
	Chief Operating Officer (S151)/		
Statement of Accounts, Annual Governance Statement & ISA260	Chief Accountant	Annual	Approval
Financial Update Report	Chief Accountant	Periodic	Committee to note
Annual Insurance Report	Head of Finance	Annual	Committee to note
Annual Procurement Update	Head of Procurement	Annual	Committee to note
Internal Audit update report	Head of Internal Audit	Periodic	Committee to note
November 2021			
Training - Corporate Fraud			
Annual review letter (Ombudsman) 2020/21	Head of Revenues and Customer Support	Annual	Committee to note
Corporate Complaints (Non Statutory) 2020/21	Head of Revenues and Customer Support	Annual	Committee to note
Counter Fraud mid-year Update Report	Corporate Investigations Manager	Bi-Annual	Committee to note
Risk Management Update report	Manager, Risk Management	Bi-Annual	Committee to note
Annual Report on the National Fraud Initiative	Corporate Investigations Manager	Annual	Committee to note
Internal Audit update report	Head of Internal Audit	Periodic	Committee to note
March 2022			
Annual Report - Certification of claims and returns (grants)	Grant Thornton, External Auditor	Annual	Committee to note
Annual Audit Letter	Grant Thornton	Annual	Committee to note
External Audit Plan 2021-22 & Informing the Audit Risk Assessment	Grant Thornton, External Auditor	Annual	Committee to note
Regulation of Investigatory Powers Act 2000 - Bi-Annual Performance	Head of Information Governance and Risk	Bi-Annual	Committee to note
Risk Management Update	Manager, Risk Management	Bi-Annual	Committee to note
Risk Management & Business Continuity Strategy and Policies 2022	Manager, Risk Management	Annual	Committee to note
The Assurance Framework on which we will base the Annual Governance Statement, including annual review of			
Local Code of Corporate Governance and the annual review of the Committee's Terms of Reference	Chief Accountant	Annual	Approval
Internal Audit Service - Annual Plan 2022-23	Head of Internal Audit	Annual	Approval

