

Leicester  
City Council

## **MEETING OF THE AUDIT AND RISK COMMITTEE**

**DATE: WEDNESDAY, 29 SEPTEMBER 2021**

**TIME: 5:30 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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- ✓ where filming, to only focus on those people actively participating in the meeting;
- ✓ where filming, to (via the Chair of the meeting) ensure that those present are aware that they may be filmed and respect any requests to not be filmed.

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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 previous meeting of the Audit and Risk Committee held on 21<sup>st</sup> July 2021 are attached, and Members will be asked to confirm them as a correct record.

#### **4. STATUTORY STATEMENT OF ACCOUNTS & ANNUAL GOVERNANCE STATEMENT 2020/21**

**Appendix B**  
**(Pages 15 - 232)**

The Chief Operating Officer submits a report to the Audit and Risk Committee to seek approval for the Council's Annual Governance Statement and Annual Accounts for 2020/21. The report also provides the Committee with an update from the External Auditor, which details their audit work and any recommendations.

The Committee is recommended to:

- note the auditor's ISA 260 Report to those charged with Governance and the recommendations contained within it;
- approve the Statement of Accounts for 2020/21;
- approve the Annual Governance Statement 2020/21;
- approve the letter of representation submitted by the Chief Operating Officer (S151);
- delegate authority to approve minor amendments to the Annual Accounts and Annual Governance Statement to the Chief Operating Officer (S151), subject to a report to the Committee at the next meeting;
- delegate authority to the Chief Operating Officer (S151) to make the IAS 19 adjustments as detailed in the report.

#### **5. PROCUREMENT ANNUAL REPORT 2020/21**

**Appendix C**  
**(Pages 233 - 242)**

The City Barrister and Head of Standards submits a report to the Audit and Risk Committee on the Council's Contract Procedure rules as required annually. The purpose of the report is to inform the Committee of the activity of the procurement function of the Council (which comprises three specialist procurement teams: Procurement Services, ICT Procurement and ASC Procurement) over the previous financial year and evidence compliance with the requirements of the Contract Procedure Rules.

The Committee is recommended to note the contents of the report and make any comments to the City Barrister & Head of Standards.

**6. PROGRESS AGAINST INTERNAL AUDIT PLANS** **Appendix D**  
**(Pages 243 - 256)**

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

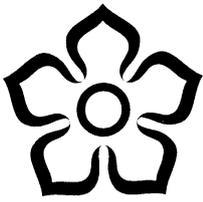
The Committee is recommended to note the contents of the update report.

**7. AUDIT & RISK COMMITTEE WORKPLAN** **Appendix E**  
**(Pages 257 - 258)**

The workplan for the Audit and Risk Committee is attached.

**8. ANY OTHER URGENT BUSINESS**





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# Appendix A

## Minutes of the Meeting of the AUDIT AND RISK COMMITTEE

Held: WEDNESDAY, 21 JULY 2021 at 6:30 pm

### P R E S E N T:

Councillor Kaur Saini (Chair)  
Councillor Pantling (Vice Chair)

Councillor Joshi

Councillor Dr Moore

\* \* \* \* \*

#### **1. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Ali, O'Donnell and Rahman

#### **2. DECLARATIONS OF INTEREST**

There were no declarations of interest.

#### **3. MINUTES OF THE PREVIOUS MEETING**

RESOLVED:

That the minutes of the meeting held on 17 March 2021 be confirmed as a correct record.

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

Members were 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

One unfilled non-Group vacancy

RESOLVED:

That the membership of the Committee for 2021/22 be noted.

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

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

RESOLVED:

That the meeting dates of the Committee for 2021/22 be noted.

**6. TERMS OF REFERENCE**

Members were asked to note the Terms of Reference for the Committee, a copy of which was circulated with the agenda.

RESOLVED:

That the Terms of Reference of the Committee as circulated be noted.

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

The City Barrister and Head of Standards submitted a report, which advised on the performance of the Council in authorising Regulatory Investigation Powers Act (RIPA) applications from 1<sup>st</sup> January 2021 to 30<sup>th</sup> June 2021.

Colin Sharpe, Deputy Director of Finance presented the report. It was noted that the Council had applied for 0 (nil) Directed Surveillance Authorisations and 0 (nil) Communications Data Authorisations in the period, but that it was important from a governance perspective to make Members of the Committee aware of the current position of the authority.

RESOLVED:

1. That the report be received and noted.

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

The Deputy Director of Finance submitted a report for noting which provided information for the Audit and Risk Committee on the National Fraud Initiative (NFI) exercises currently underway.

Stuart Limb, Corporate Investigations Manager presented the report, and the

following points were highlighted:

- The NFI had been carried out every two years since 1996.
- A summary of matches was highlighted at para 4.5 in the report.
- The authority participated in two data matching exercises: one with other authorities, and the other with data matching internally.
- The matches were then allocated on the secure online portal to key contacts around the authority to check those matches to ensure there was no fraud or error in the systems.
- 14698 matches came to the authority 29<sup>th</sup> January 2021. So far over 5,000 had been checked and validated for fraud or error, so were progressing really well.
- It was stressed that not every match had to be checked on the exercise, but was checked on a risk-based level, with the highest risk first.
- The NFI provided an invaluable impartial data-matching exercise that the authority had to participate in. It matched numerous data sets across the authorities, for example, tenancies, data claims, blue badge, with other authorities across the country to check there was no duplication.

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

- In matches undertaken by 23<sup>rd</sup> June 2021, the table listed two errors having been identified. It was reported that at the time of writing the report, the NFI website was showing two overpayments, since which the errors had been clarified with the service area and explained away as no fraudulent overpayments which had been returned to £0.
- The exercise had undoubtedly demonstrated its value over the years to detect and reduce fraud. Whilst not having identified major fraud and errors, it had been useful, particularly in London boroughs where the population was quite transient and crossed borders easily, to covers millions of pounds of matches.
- The reverse was if nothing was found during the exercise, it gave an assurance the level of fraud and error was quite low.

The Chair thanked the Officer for the report.

RESOLVED:

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

## **9. COUNTER FRAUD REPORT 2020**

The Deputy Director of Finance submitted a report for noting which provided information on the work carried out by the Corporate Investigations Team for the period 1<sup>st</sup> April 2020 to 31<sup>st</sup> March 2021.

Stuart Limb, Corporate Investigations Manager presented the report, and the following points were highlighted:

- The report explained there had been a huge change in emphasis on work

undertaken by the Team for the previous financial year because of Covid-19 pandemic.

- A lot of work had shifted from reactive and investigatory to proactive. The Team had worked intensively with colleagues in Revenues and Customer Support and the wider Finance Division, to put procedures, declarations and a robust application process in place for the business support grants. A lot of work undertaken over the past year had been on verification and checking rather than criminal investigations.
- Collectively over 15,000 applications had been received by the authority in total for various funding schemes devised by the Government.
- The services of external companies were employed to provide bank verification checks.
- The authority also subscribed to the National Fraud Initiative and the National Anti-Fraud Network, which sent anti-fraud alerts such as fraud trends or phishing, to prevent payments being made in error to suspicious applications.
- Combined loss avoidance and income generated savings was at £959,000.

Members were impressed with the work undertaken. In response to Members' questions, the following information was noted:

- Fraud discovered by the authority was shared on the NFI secure website, and information was also fed back to the anti-national fraud network, as did colleagues at County Hall. Also new suspicions of fraud were also shared with the NFI network, to assist other local authorities and was a real valuable tool to find out what was happening outside of the city.
- An official contract was held with a credit reference agency to undertake bank verification checks based on information shared securely with them supplied by the applicants and provided the authority with a level of assurance that bank statements did match an applicant.
- With reference to the combined loss avoidance and income generated savings of nearly £1million, if turned on its head, it would mean there would be inaccurate or incomplete applications received across the different areas, for example, a tenancy fraud. It would be difficult to place a numerical value on tenancy fraud, so it was agreed with the Director of Finance a notional figure average of a tenancy was 10 years, and based on that figure, when tenancy fraud was committed the notional value attributed was 10 years at an average rent of approximately £37k.
- Where there was direct theft or fraud of Council Tax, the financial value would be attributed to the exact penny. There were schemes open to the authority such as the New Homes Bonus, whereby the authority was credited for bringing back into circulation empty properties. The Team would look at the empty properties every year on the Council Tax Register which would then be checked to see if they were in fact empty. Evidence found would be passed by to Revenues and Benefits to decide on whether the property should be classed as empty or not. As a direct result the Council received approximately £7k per property and an increase in funding, and was a real income generator of the authority. The service was also provided to other local authorities in the area.

The Chair thanked the Officer for the report.

RESOLVED:

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

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

The External Auditor Grant Thornton submitted for noting the External Audit Plan for year ending 31 March 2021, which provided an overview of the planned scope and timing of the statutory audit of the Council for those charged with governance.

The document was presented by Grant Patterson, External Auditor. Points highlighted in the document were:

- Key matters were highlighted where Covid-19 continued to feature heavily on the Council's agenda and finances.
- The volume and nature of accounting for additional grants and packages had impacted on the Council's work over the course of the pandemic and how they were reported.
- Significant risks as deemed by external auditors were listed in the report. There were two presumed risks: firstly, improper revenue recognition and secondly, management override of controls. For the latter, external auditors' proposed response to address this would be to focus on subjective areas of the accounts, including estimates where management could circumvent normal controls to achieve a certain outcome.
- With regards to the first risk, external auditors had rebutted this risk, but would still undertake a significant level of work on the Council revenue streams.
- Valuation of net pension fund liability was listed as a significant risk and had previously been raised in the progress report at Audit & Risk Committee in March 2021.
- It was recognised that the risk of valuation of land and buildings had had significant work undertaken by both the external auditor and Council, and associated recommendations were kept open.
- The risk of Operating Expenses highlighted the focus on the need for completeness of non-pay expenses.
- Other matters provided a summary of the external auditor's responsibilities, included the requirement for them to read the Council's Narrative Report and Annual Governance Statement to check they were consistent with the financial statements, on which they would give an opinion.
- All external audit work was driven by materiality, levels of which were lower than the financial year ending 2020. Any changes on materiality would be reported back to the Audit & Risk Committee as part of the external auditor's findings report.
- Whilst no longer giving a value for money conclusion as in previous years, external auditors were now required to ensure there were proper arrangements for improving economy, efficiency and effectiveness, financial sustainability and governance.

- There were risks of significant weakness in the funding levels beyond 2021/22, which were uncertain.
- The increase in audit fees for the year were set out for transparency in the report.
- The Council also commissioned the external auditor to undertake other work, and were standard pieces of work around housing benefits, teachers' pensions and housing capital receipts returns.
- One matter brought to the attention of the Committee was a member of the audit team based at Birmingham had a close family member who worked at the Council, and the individual had not worked on any audit work for the Council, and independence had not been impacted.

In response to Members' questions, the following responses were given:

- With regards to Council Dwellings valuation, the valuation needed to be improved, and would be picked up as part of the year end process and was not a material change in the accounts and there were processes in place moving forward.
- To reassure Members with regards to the Council pension fund liability, audit was looking at the net pension liability that the Council had to pay over 40-50 years moving forward, and there were many complex assumptions behind that. External Audit were confident that an audit review of how the estimate was put together would be undertaken. The Government had set out statutory overrides that allowed the Council to smooth out any ups and downs in terms of valuations in any one year. The contribution rate the Council has to pay is reviewed every three years and reflected in the budget strategy.
- Progress on Fixed Penalty Notices processes had not been formally followed up and would be included in the audit finding report.
- With regards to the cost of additional work on VfM under the new NAO Code of Practice, it was too soon to comment but was not expected to increase significantly. The Ministry of Housing, Communities and Local Government had made £15million available to address the Redmond Report and the increased audit scrutiny.

The Chair thanked the External Auditor for the report.

RESOLVED:

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

#### **11. DRAFT STATUTORY STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT 2020/21**

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

Amy Oliver, Head of Finance, presented the report, and drew Members' attention to the following:

- The statutory accounts were prepared in accordance with the Code of Practice on Local Authority Accounting in the UK.
- The accounts were produced consistently to the Outturn Report, but did show a very different presentation as the Outturn Report was produced in line with the authority's budget. However, the financial position in the Statement of Accounts included Premises, Plant and Equipment, and Pensions Liability which would not usually be seen in the Outturn Report, as it did not directly impact on the Council Tax or Business Rate payer.
- In addition, the Annual Governance statement for approval was produced in line with the accordance with Local Code of Corporate Governance CIPFA guide, which showed all controls were in place.
- Draft accounts did not need to be published until the 1<sup>st</sup> August as there was an extension for 2021, but were published to the original deadline of May 2021, which worked well for audit.
- The front part of the Statement of Accounts was a narrative report which summarised the financial position of the Council and the impact of Covid-19 on the accounts in the year.
- The draft also included core financial statements, and explanatory notes to the accounts.
- There is a material item of expenditure note. Usually reported as 0 (Nil) return, but due to Covid-19 the income for the authority had changed, for example, leisure centre and car parking income had significantly reduced. Also, the collection of rent and council tax had not been as high as budgeted for. Some of the income loss had been replaced by government grants which had been included in the accounts, which compared differently when looking at other year on year financial statements.
- Usable and unusable reserves had increased significantly, mainly due to timing of financial years. For example, business rates and council tax deficits had increased through the impact of Covid-19 which would impact the Collection Fund in 2021/22, however, the Government had provided some compensation in advance in 2020/21. This had been transferred to earmarked reserves.
- The pension deficit had risen to £903million at March 2021 in and was a figure based on an estimate of benefits likely to be paid out by the pension fund over the next 40-50 years. The tri-annual review would look at the employer's and employees' contribution rates and work out how much they need to be to recover that deficit over the longer term. £903million was a large number but statutory overrides meant it did not directly affect the financial position of the authority, and would be monitored to see how changes to the employer's rate would impact on the financial strategy going forward.
- Other key notes which usually gained attention from external stakeholders were No. 31 Members' Allowances, and No. 32 Officers' Remuneration which were drawn to the attention of the Committee for noting.
- Under Housing Revenue Account, it was highlighted that funds were ringfenced and could not be used to finance the General Fund.
- The Collection Fund Account was listed as a ring-fenced account that represented the Council's role in collection of Council Tax and Non-

Domestic Rates, what was collected in year, what was paid out to precepting authorities, for example, Fire and Police as well as to the Council's own General Fund.

- The Annual Governance Statement was included in the report, which set out the Council's visions, controls in place, and significant risks identified during the year, such as the impact of Covid-19.

The Committee was asked that with what they had read if they considered there was significant risk within their understanding of the Council and were asked to provide comment.

The Officers were congratulated on providing the training before the meeting, which had assisted Members and had reduced questions that might have arisen.

Members were offered further training and discussion on the Accounts should they wish.

RESOLVED:

1. That the Draft Statutory Statement of Accounts for 2020-2021 be noted.
2. That the Draft Annual Governance Statement for 2020-2021 be noted.

## **12. REPORT OF THE AUDIT AND RISK COMMITTEE TO COUNCIL COVERING THE MUNICIPAL YEARS 2019/20 AND 2020/21**

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

Colin Sharpe, Deputy Director of Finance presented the report and it was noted that the Committee's Terms of Reference approved by Council required that an annual report be compiled. National guidance produced by CIPFA also considered it best practice for the Committee to demonstrate its effectiveness and significant contribution to good governance of the Council in an annual report.

It was noted that the report unusually covered two years due to Covid-19 restrictions which had delayed the 2019/20 report (previously approved by the Committee) being taken to Council.

The conclusion the report noted the Committee had fulfilled all of the requirements of its Terms of Reference and the good practice guidance issued by CIPFA.

The Chair thanked the officer for the report and recommended the report be taken to Full Council for approval.

RESOLVED:

1. That the report of the Audit and Risk Committee covering the Municipal Years 2019/20 and 2020/21 be approved and submitted to Council.

### **13. PROGRESS AGAINST INTERNAL AUDIT PLANS**

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 2020/21 and 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.

Neil Jones, HoIAS, presented the routine report, outlined the main headlines and provided an overview on progress and plans for closing off the 2020/21 year and starting 2021/22. Points highlighted were:

- The Committee had duties under the Council's Constitution to monitor performance and receive summaries against the Internal Audit Plan.
- Assurance levels were given as to whether material risks were being managed.
- It was noted that remote working continued for the Internal Audit Service (IAS).
- Appendix 1 to the report provided a summary of Internal Audit progress against planned audits. Items in bold font highlighted a change of status from when previously reported.
- A meeting would be held with the Deputy Director of Finance in August to re-evaluate progress and prioritise audits not yet started and close off some audits. Tables at paragraph 9 to the report provided a summary position of progress, and resources used of just over 90 days.
- Appendix 2 to the report provided a summary position of high importance recommendations. It was noted that anything in bold font depicted a change in status from when last reported in March 2021.
- There was one high-importance additional recommendation and three closures for the period, summarised at Paragraph 12 to the report.

In response to Members' questions, the following responses were given:

- Requests for the postponement of an audit could be for a number of reasons, especially during the Covid-19 pandemic as management focussed on other urgent matters. Other reasons could include a position change in terms of new systems or developments coming in.
- The Deputy Director of Finance noted that during the pandemic the plan was relaxed, but from here on any requests for a postponement would be looked at critically in terms of risk and would need to be fully explained. The Deputy Director of Finance was also mindful of the need for Internal Audit to conduct a certain amount of audit across the authority to produce the internal audit opinion, so that the Chief Operating Officer and Deputy Director of Finance could be satisfied that on the whole audit and governance arrangements were robust.

- In terms of an external auditor's viewpoint, if the internal audit function wasn't progressing its plan and was being put back in terms of other priorities, it would trigger alarm bells from an external auditor's point of view, questioning internal controls and governance arrangements, and would likely factor into the Value for Money consideration as part of the governance narrative.

The Chair thanked the Officer for the report.

RESOLVED:

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

#### **14. INTERNAL AUDIT SERVICE - ANNUAL REPORT 2020-21**

The Internal Auditor submitted an annual report to the Audit and Risk Committee which reported on internal audit work conducted during 2020/21. The report also contained information on the internal audit function's conformance to professional standards and provided an insight into its effectiveness.

Neil Jones, HoIAS presented the report and highlighted the following information:

- The end of year report completed the cycle of audit work undertaken and was required under the Public Sector Internal Audit Standards (PSIAS).
- There were specific requirements to be incorporated into the report, the most important being an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment.
- Annex 1 to the report explained that to form an opinion it used a combination of factors and evidence, including internal audit work summarised in Annex 2.
- Despite the impact of Covid-19 internal audit still managed to undertake sufficient audit and control environment work and observe governance.
- It was reported the Council's overall control environment remained adequate and effective.
- There was some shift from assurance audits to reactive and advisory work around Covid-19 and grant certifications.
- Any partial assurance ratings would continue to be followed up and remain in the Committee's domain until the HoIAS was satisfied enough action had been taken to mitigate risk.
- A key audit undertaken each year on IT controls was postponed due to significant pressure on City IT staff, but Internal Audit were able to provide assurance on remote working arrangements and that key IT risks associated to the pandemic had been actioned.
- Also due to the pandemic, no maintained schools were audited.
- Paragraphs 20-26 reflected performance over the year which on the whole was reasonable given the unique circumstances, such as redeployment, some longer-term Covid-19 absences and the extreme pressures and demands on city management.

- The HoIAS considered there was a sufficient range and amount of work undertaken, but that was the lowest it could go before affecting the audit opinion.
- On a positive note, audit staff in the city and county remained interchangeable, with a lot of synergy gained, especially through auditing grants, and an increase in collaboration and information sharing, and high satisfaction rate of audit work undertaken.
- Internal Audit work was self-assessed for conformance to the PSIAS and Quality Assurance and Improvement Programme (QAIP) and both had come through positive.

The Chair thanked the Officer for the report, and the recommendations in the report were noted.

**RESOLVED:**

That the Audit and Risk Committee:

1. Received and approved the contents of the Annual Report and Opinion.
2. Noted that for the year ended 31 March 2021, the HoIAS had reported that the Council's control environment overall remained adequate and effective.
3. Noted that the individual assignment opinions expressed together with any significant matters arising from internal audit work had been given due consideration when developing and reviewing the Authority's Annual Governance Statement for 2020-21.
4. Noted the outcomes of the HoIAS self-assessment against the PSIAS and QAIP.

**15. FURTHER UPDATE ON DEVELOPMENTS IN LOCAL (EXTERNAL) AUDIT ARRANGEMENTS**

The Internal Auditor submitted a report which provided the Audit and Risk committee with a further update on developments in local (external) audit arrangements that were associated with the Committee's responsibilities.

Neil Jones, HoIAS presented the report and noted the following:

- The report was the fourth brought to Committee, the timeline of which was highlighted in paragraphs 4-6 in the report and included information on the transparency of local audit reporting otherwise known as the Redmond Review.
- The report noted that in May 2021, the Government published an update containing its plans for further implementing the Redmond recommendations.
- Most importantly was the Government's proposal that the system leadership for local audit leadership for external audit would be best placed with the yet to be established Audit, Reporting and Governance Authority (ARGA) which would replace the Financial Reporting Council (FRC) rather than a new arms-length body that Redmond recommended.

- The Government foresaw further safeguards, and redistribution of responsibilities were proposed, but the arrangements for procurement and contract management for local audit would remain with the Public Sector Audit Appointments Ltd (PSAA) with commercial support from MHCLG.
- There would be public consultation on the proposals before the Government's summer recess.
- There were two further MHCLG consultations outlined in paragraph 13 to the report, the outcomes of which were awaited.
- The Government's proposals had been mostly welcomed by stakeholders, but views on available skills, capacity on costs of local audit remained guarded.
- The next round of procurement for external audits commencing from financial year 2023/24 were now beginning to be planned. The City Council had previously opted for the PSAA-led procurement. As part of its planning the PSAA had been consulting on its prospectus, and it was PSAA's view that the market would remain relatively unstable and difficult to predict for some time.
- The prospectus included plans to adjust the procurement ratio between quality and costs from an equal 50:50 to 80:20 ratio. There was some nervousness in local government in that whilst quality was clearly important, costs must not be excessive. Consultation on the prospectus closed on 8<sup>th</sup> July and the Deputy Director of Finance had provided comment.
- Since the report was compiled, on the 14<sup>th</sup> July, the Public Accounts Committee (PAC) launched a report titled, 'Local auditor reporting on local government in England'. The report was scathing of the Government saying that:
  - Whitehall's oversight of external local government audit has become "increasingly complacent" and that the proposed solution involves treating public audit as "an afterthought".
  - Less than half of local authority audits met the deadline for completion in 2019-20.
  - The local audit market is "now entirely reliant upon only eight firms, two of which are responsible for up to 70% of local authority audits".
- The PAC had questioned whether the "pressing" need for new system leadership in local public audit, identified in the Redmond Review, would actually be met by Government's proposal for a future ARGA which would not be set up until 2023 at the earliest, i.e. more than four years since an oversight body was proposed by Redmond. The PAC considered it was unclear whether ARGA would actually fully address the current failings in the market for auditing local authorities, and in the meantime, Government had not provided credible detail on addressing the urgent problems that could not wait for ARGA.
- The PAC had asked the Government to write and explain the accountability and governance arrangements of the new organisation, and how its performance would be monitored and evaluated. It had also recommended that Government should ensure that PSAA's next procurement exercise supported a new fee regime for local government audit, which was

appropriately funded, and which brought fees into line with the costs of the work.

- It was unlikely that responses would have been received from Government back in time to report to the September 2021 Audit and Risk Committee, so would be reported at the November 2021 meeting.

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

- A worry for Members was the changes to the ratio between quality and costs of 50:50 to 80:20 which had raised some questions. An area meeting was coming up with the Chief Executive of the PSAA and the Deputy Director of Finance would raise some questions. The local government media attention was frequent around these arrangements, and was not likely to cease until the PSAA came up with final proposals for procurement.
- The Deputy Director of finance believed the 80:20 split was problematic and only putting 20% against costs risked them getting out of hand, as it was accepted that the scale of fees for audit work was currently too low and fees for additional work had been added in recent years.
- The next meeting of the finance officers from the Leicestershire councils and districts, police and fire would have a full discussion on the PSAA proposals in the consultation. All were concerned and noted there were similar issues for the NHS. All audit firms were experiencing difficulties in recruiting and retaining the necessary staff, and about half of the 2021 audits were not going to meet deadlines.
- The External Auditor noted the challenge was in trying to make the role of public sector audit attractive, to make it a career.
- Parliament had already gone into summer recess. Members were not filled with confidence with the public consultation that had been launched, or that officers would be able to present their comments as part of the consultation.

The Chair thanked the Officer for the report and input from the Committee and Officers.

RESOLVED:

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

## **16. AUDIT & RISK COMMITTEE WORKPLAN**

The Deputy Director of Finance submitted a report which outlined the business to be brought to the Committee for the forthcoming Municipal Year 2021/22.

Committee Members were advised that they could request additional reports of training sessions if felt necessary.

RESOLVED:

- That the report be noted.

## **17. ANY OTHER URGENT BUSINESS**

There being no other items of urgent business, the meeting closed at 7.59pm.

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## **Statutory Statement of Accounts & Annual Governance Statement 2020/21**

Decision to be taken by: Audit and Risk Committee

Date of meeting: 29th September 2021

Lead director: Alison Greenhill

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## Useful information

- Ward(s) affected: All
- Report author: Ben Matthews
- Author contact details: Ben.Matthews@leicester.gov.uk
- Report version number: 1.0

### 1. Summary

- 1.1 To seek the approval of the Committee for Council's Annual Governance Statement & Annual Accounts 2020/21.
- 1.2 To provide the Committee with an update from the External Auditor, which details their audit work and any recommendations.

### 2. Recommendations

- 2.1 The Audit & Risk Committee is recommended to:
  - Note the auditor's ISA 260 Report to those charged with Governance and the recommendations contained within it, attached at Appendix A.
  - Approve the Statement of Accounts 2020/21, Appendix B
  - Approve the Annual Governance Statement 2020/21, Appendix B.
  - Approve the letter of representation submitted by the Chief Operating Officer (S151), attached at Appendix C.
  - Delegate authority to approve minor amendments to the Annual Accounts & Annual Governance Statement to the Chief Operating Officer (S151), subject to a report to the Committee at the next meeting.
  - Delegate authority to the Chief Operating Officer (S151) to make the IAS19 adjustments, as detailed in this report.

### 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.
- 3.2 The draft statements were considered by the Audit & Risk Committee on the 21st July 2021.

#### **4. Statement of Accounts**

- 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 Council 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 financial position of the Council as at 31 March 2021.
- 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 During the external audit period, the need for certain amendments to the draft financial statements have come to light. These have been mainly presentational matters. However, there have been other changes this year which have been reflected in the final Statement of Accounts. None of these amendments have resulted in a change in the overall level of balances available to the Council to finance its ongoing operations.
- 4.4 The changes impacting the main statements are identified below:
- The impairment of two assets that no longer should have been held on our balance sheet. This correction impacted the Comprehensive Income and Expenditure Statement and the Balance Sheet.
  - The updating of some Housing Revenue Account asset values, to include spend that had added value during the year. This correction impacted the Comprehensive Income and Expenditure Statement and the Balance Sheet.
- 4.5 In addition to the above, the Leicestershire County Council Pension Fund auditors have identified a change required in relation to the asset valuations provided by the Actuary. Due to the late notification and us still awaiting the updated information this change has not been actioned in the accounts presented. This correction will impact the main statements. However, like the changes detailed above it will not impact the Council's overall level of balances available to fund ongoing operations. We are therefore proposing as part of this report the approval of the changes be delegated to the S151 officer

#### **5. Annual Governance Statement**

- 5.1 The Annual Governance Statement is presented here for approval. If approved the Annual Governance Statement will be signed by the Chief Operating Officer and City Mayor and published with the Statement of Accounts.
- 5.2 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.

5.3 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. Letter of Representation**

6.1 The letter of representation is a letter signed by the Chief Operating Officer (as the S151 officer) and approved by the Audit and Risk Committee.

6.2 It is designed to give the external auditor assurance on the information included in the Statement of Accounts and to affirm that the primary responsibility for the content of the Statement of Accounts remains with the Council.

## **7. ISA 260 Report to those charged with Governance**

7.1 The ISA 260 Report details the conclusions of the external audit and makes any recommendations deemed necessary. Management responses to the recommendations are contained within it.

## **8. Financial, legal, equalities, climate emergency and other implications**

### 8.1 Financial implications

The report is exclusively concerned with financial issues.

### 8.2 Legal implications

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

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

### 8.3 Equalities implications

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

Surinder Singh, Equalities Officer

### 8.4 Climate Emergency implications

There are no climate emergency implications

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

N/A

**9. Other Implications**

<b><u>OTHER IMPLICATIONS</u></b>	<b><u>YES/NO</u></b>	<b><u>PARAGRAPH REFERRED</u></b>
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	

**10. Background papers:**

- 10.1 Revenue and capital outturn reports presented the Overview Select Committee on 27th May 2021.
- 10.2 The Draft Statutory Statement of Accounts 2020/21 presented at the Audit & Risk Committee on 21st July 2021.

**11. Summary of Appendices:**

- Appendix A - ISA 260 Report
- Appendix B – Annual Statement of Accounts & Annual Governance Statement 2020/21
- Appendix C - Letter of representation

**12. Consultations**

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

**13. 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)?**

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



# The DRAFT Audit Findings for Leicester City Council

**Year ended 31 March 2021**

21 Leicester City Council  
29 September 2021



# Contents



## Your key Grant Thornton team members are:

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## Section

1. Headlines
2. Financial statements
3. Value for money arrangements
4. Independence and ethics

## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Management Letter of Representation
- F. Audit letter in respect of delayed VFM work

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and will be discussed with the Audit and Risk Committee.

Name : Grant Patterson  
For Grant Thornton UK LLP

Date :

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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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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Leicester City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

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## Financial Statements

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Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work has been conducted remotely from June to date. Our findings are summarised on pages 4 to 24. 3 adjustments have been identified to the financial statements, none of which have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement.

Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

There are a number of matters still underway as at the time of writing but from the work done to date there are no matters of which we are aware that would require modification of our audit opinion (for draft wording please see separate Committee agenda item) or material changes to the financial statements, subject to satisfactory resolution of the outstanding matters, as set out on the page 6.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified, but we will be unable to certify the audit closed until our work on the whole of government accounts is complete and we have issued our Annual Auditor's Report (covering our work on the Council's value for money arrangements).

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# 1. Headlines

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## Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 31 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our planning work, we considered whether there were any potential risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a potential risk in respect of financial sustainability. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

However, we received an email from a taxpayer on 8 September asking us to consider a matter. We are:

- liaising with them further to inform them of their statutory rights and the proper challenge procedures, and
- considering whether the information provided requires investigation under the Code of Audit Practice.

We will keep the Audit and Risk Committee abreast of this matter.

We expect to certify the completion of the audit upon the completion of our work on the Council's Value For Money arrangements, which will be reported in our Annual Auditor's Report, as well as the completion of our work on the Whole of Government Accounts procedures.

## Significant Matters

### Management's assumptions and estimates

The revised auditing standard in relation to estimates has led to heightened scrutiny over the estimates in the accounts, particularly property and pension valuations.

For property valuations in particular, there has been significant enquiry and challenge with both sets of valuers over the inputs and assumptions applied, as discussed on pages 11 to 12, 16 and 18, and our work in these areas is incomplete pending receipt of outstanding responses to our queries and our consideration thereof.

# 2. Financial Statements

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you in July 2021, though we have performed additional work in relation to findings made by the work of our IT specialists on the Council's IT general controls and clarified the specific significant risk in respect of the Council's net pension liability valuation. Please refer to pages 3 & 4 and 13 for more detail.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion pending satisfactory conclusion of all outstanding matters. The outstanding matters are listed overleaf and are as at the time of writing. We will update the Committee verbally of progress against these matters at the meeting on 29 September.

### Acknowledgements

The impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again in respect of remote access working arrangements i.e. video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely produced by the Council, access to key data (which we would otherwise just view in person) etc.

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff, and look forward to working face to face again in future, when Covid restrictions allow and when new working arrangements are established and confirmed.

## 2. Financial Statements

Status of the audit: the outstanding matters as at the time of writing are set out below.



- receipt of responses from the Council's internal valuer on our queries and our consideration thereof
- completion of our work on the valuation of land and buildings
- receipt of the updated IAS19 valuation report, which will require the Council to amend the accounts and us to redo an element of our work on the valuation of the net defined benefit pension liability
- final manager and engagement lead review of all of the above once completed



- receipt of IAS19 assurances from the pension fund auditor
- completion of our work on the Expenditure and Funding Analysis
- completion of our consideration of the Council's minimum revenue provision
- final manager and engagement lead review of the above once completed



- response to our query in respect of infrastructure assets depreciation
- receipt of the updated disclosure of accounting standards issued but not yet adopted, with regard to IFRS 16
- receipt of the Council's WGA pack and completion of our procedures thereon
- receipt and review of the updated financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

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### Status

- High potential to result in material adjustment or significant change to disclosures within the financial statements
- Some potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

## 2. Financial Statements



### Our approach to materiality

The concept of 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.

Materiality levels remain the same as reported in our audit plan.

We detail in the table below our determination of materiality for Leicester City Council.

	Materiality	Qualitative factors considered
Materiality for the financial statements	£15.250m	<p>We determined materiality for the audit of the Council's financial statements as a whole to be £15,250,000, which is approximately 1.5% of the Council's gross operating expenses.</p> <p>This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.</p>
Performance materiality	£9.912m	<p>We use a different level of materiality, performance materiality, to drive the extent of our testing. Our consideration of performance materiality is based upon a number of factors:</p> <ul style="list-style-type: none"> <li>• We have not historically identified significant control deficiencies as a result of our audit work</li> <li>• We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment</li> <li>• There have been prior period errors in previous years, as well as £13m unadjusted misstatement from findings in relation to Property, Plant and Equipment in 2019-20</li> <li>• Senior management and key reporting personnel in the finance function has remained reasonably stable from the prior year audit</li> </ul> <p>On this basis we have reduced the performance materiality from a possible 75% (standard threshold) to 65%.</p>
Trivial matters	£0.762m	<p>We determined the threshold at which we will communicate misstatements to the Audit and Risk Committee to be £762,500, which is approximately 5% of materiality.</p>
Materiality for senior management remuneration	£0.025m	<p>We consider the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts.</p>

## 2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p><b>Management over-ride of controls</b></p> <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:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals</li> <li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>• identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness</li> </ul> <p>As in the prior year we noted that there is a lack of established approval process for journals; instead placing reliance on the Council's day-to-day activities to identify any journals that were posted incorrectly.</p> <p>Since November 2019 the Council has put in arrangements which mitigate this deficiency to a certain extent. Each individual journal is still not counter signed but since November all journals posted in the month are downloaded and split by the department which posted them. The principal accountant of the relevant department who posted them then picks a sample to review, making sure they should have been posted and are correct. This review is signed and dated by the principal accountant and returned to the corporate finance team. We have seen this process and are content it is working as designed.</p> <p>From the sample testing of journals undertaken we have found that they were appropriate, eligible and valid, and can be agreed to supporting evidence.</p> <p>Our approach to this work was informed by the findings made by IT audit specialists from their review of the Council's IT general controls. IT audit undertook a design and implementation review of the following applications, which were scoped into the review on the grounds that they impact the financial reporting of the Council:</p> <ul style="list-style-type: none"> <li>• i-Trent (HR and payroll system)</li> <li>• Civica (Housing Benefits)</li> <li>• Unit-4 (General ledger)</li> <li>• Active Directory (domain controller authenticating and authorising users and assigning and enforcing security policies, eg password control)</li> </ul>

## 2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management over-ride of controls (continued)</p>	<p>We considered whether administrative access to i-Trent and Unit 4 had been granted to users who also have financial responsibilities, as the combination of financial responsibilities with the ability to administer end-user security is considered a segregation of duties conflict. It increases the risk of these elevated privileges being used to make unauthorised changes to the application, business processes or user accounts by over-riding internal system controls, which could lead to fraud and/or financial misstatement. Three recommendations were raised which are under review by management and our IT Audit Team (which are included within Appendix A of this report).</p>
<p>29</p>	<p>For more in-depth consideration of the Council's judgements and estimates please refer to pages 16 to 19. We have no further findings to report from the work conducted.</p>
<p>Risk of fraud in revenue recognition and expenditure Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We concluded that there is no risk of material misstatement due to fraud relating to revenue recognition and therefore rebutted this risk. We have also considered and rebutted the risk of improper recognition of operating expenditure</p>	<p>We: <u>Accounting policies and systems</u></p> <ul style="list-style-type: none"> <li>• evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code</li> <li>• updated our understanding of the Council's business processes associated with accounting for income</li> </ul> <p><u>Fees, charges and other service income</u></p> <ul style="list-style-type: none"> <li>• agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence</li> </ul> <p><u>Taxation and non-specific grant income</u></p> <ul style="list-style-type: none"> <li>• conducted substantive analytical procedures for predictable income streams such as national non-domestic rates and council tax for other grants we sampled items back to supporting information and subsequent receipt, considering accounting treatment where appropriate</li> <li>• designed tests to address the risk that income has been understated, by not being recognised in the current financial year</li> </ul>

## 2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Risk of fraud in revenue recognition and expenditure (continued)	<p data-bbox="573 539 701 560"><u>Expenditure</u></p> <p data-bbox="573 579 1057 600">For further detail see commentary on page 14.</p> <p data-bbox="573 619 873 639"><u>Accounting for Covid grants</u></p> <p data-bbox="573 659 2063 852">There has been additional work required this year compared to what would ordinarily be the case due to the significant additional funding received during the year to assist the Council in responding to the pandemic. The Council notes in the Narrative Report that it has received £105.7m of Covid grants for which it is acting as an agent. It is important to determine whether the authority is acting as principal or agent as different accounting treatment follows. An authority acts as an agent when it does not control goods or services before they transfer to the service recipient. In this instance, transactions are not included in an authority's financial statements. We reviewed the grants comprising the £105.7m and were satisfied based on our review, that it was appropriate for the relevant income and expenditure to not be recognised in the financial statements.</p> <p data-bbox="573 871 2094 924">Note 35 is where the covid grants, for which the Council has determined it is acting as principal, are disclosed, of which there are approximately £94m. We have sampled these grants as part of our overall grants testing procedures and are satisfied with the treatment thereof, including:</p> <ul data-bbox="573 943 2078 1102" style="list-style-type: none"> <li data-bbox="573 943 1951 963">• whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all</li> <li data-bbox="573 983 2078 1035">• the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income</li> <li data-bbox="573 1054 2078 1107">• consideration of the impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES, (ie as taxation and non-specific grant income, or as part of cost of services).</li> </ul> <p data-bbox="573 1121 1447 1142">Our audit work has not identified any issues in respect of revenue recognition.</p>

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

#### Valuation of land and buildings (including council dwellings)

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.

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

We have therefore identified the valuation of land and buildings revaluations and impairments as a risk of special audit consideration.

### Commentary

We:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the evaluation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- wrote to the valuer to confirm the basis on which the valuations were carried out
- engaged 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
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register
- evaluated 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.

We note that the internal valuer (who was responsible for valuing other land and buildings) had not physically observed the assets, and therefore we paid consideration to how impairment and or/obsolescence was considered in the absence of a physical inspection. The external valuer (who was responsible for valuing Council Dwellings) had physically inspected all beacon properties as part of their valuation.

A significant amount of work was undertaken as part of our audit challenge in the prior year 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 recommendations being made in our 2019/20 Audit Findings Report in relation to the valuation process. 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.

This challenge has been enhanced this year, both to take into account the findings last year, but also to reflect the increased requirements on both ourselves and management as a result of the revised auditing standard being in place in respect of estimates.

From our work to date we have identified the following:

#### Valuation of land and buildings

- included in the valuation of other land and buildings is St Margaret's Bus Station. This asset was demolished just prior to the period end and as such an impairment should have been recognised. This means that the value of land and buildings is overstated by £10.1m in the draft financial statements. Officers recognised this error while following up an audit query.
- Within assets under construction, there is a balance of £2.5m, relating to the Waterside Primary Project. Feasibility studies were carried out in 2018/19 which identified significant ground contamination and the project was subsequently aborted. This means that the value of assets under construction is overstated by £2.5m in the draft financial statements.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

Valuation of land and buildings (including council dwellings)  
(continued)

### Commentary

- We met virtually with members of the Estates team to verify the gross internal areas (GIA) used in the valuation of our sample of properties within other land and buildings. We noted that in two of our samples, there were apparent differences between the GIAs used in the valuation compared to those shown in the Authority's property records. This is because previous period re-measurements, which had been noted on property records, had not been taken into account in the valuation calculations. This has resulted in the understatement in value for one property of £0.4m and the overstatement of value in the other of £1.5m.
- From review of the Council's fixed asset register we have identified that there are 880 assets with a gross book value of £35.8m which have no remaining useful economic life. The net book value of these assets is £nil, so they have no impact on the financial statements. We recommend that Council review assets with no useful economic life remaining and take action as appropriate based on their findings.

We still have outstanding queries in this area, and therefore there may be more findings to report to you when the work is complete.

#### Valuation of Council Dwellings

The valuation report for Council dwellings does not reflect Council Dwelling Asset additions made between the date at which the information was provided to the valuer and the year end. The Council have 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, irrespective of when they took place.

We are satisfied, that given that the value of the additions included in the financial statements is £1.9m, the value of council dwellings cannot be materially misstated in this regard.

We still have outstanding queries in this area, and therefore there may be more findings to report to you when the work is complete.

Please refer to pages 16 to 19 for an assessment of the estimation process applied.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

#### Valuation of net pension fund liability

The Authority'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.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.

### Commentary

We:

- updated 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;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested 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;
- undertook 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.

We identified no findings from our work in this regard, though for the reasons set out below we note that our work in this area is incomplete.

The Council has been notified by the Pension Fund Administrators that revised IAS19 valuation reports are required, which may mean that the Council's pension disclosures need to be updated because of material differences between the original valuation and the updated one. This is because when the pension fund accounts were compiled they included two estimates for hard to value assets. Due to the nature of these investments the actual valuations are not available for many months after year end. The actual valuations have now been received and these show a significant improvement over the estimates used, by over £35m. The actuary is providing updated valuation reports to reflect the actuals but they are not available as at the time of writing. As the Council's share is approximately 30% of the total fund the impact of this update on its accounts is likely to be material, and therefore an adjustment will be required.

We also note that we have sought 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. This information is outstanding as at the time of writing.

## 2. Financial Statements – other risks

### Risks identified in our Audit Plan

#### Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses.

Management uses judgement to estimate accruals of un-invoiced costs.

We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.

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.

### Commentary

We:

- evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness
- gained an understanding of the Council's system for accounting for non-pay expenditure, including walking through the process to determine that it was operating as expected
- applied elevated risk procedures and tested a sample of balances included within trade and other payables
- tested 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
- tested a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period.

We have no matters to report from our work in this area.

## 2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>IFRS 16 implementation</p> <ul style="list-style-type: none"> <li>Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies may still like to include disclosure in their 2020/2021 statements.</li> </ul>	<p>The disclosure in the draft accounts notes that IFRS 16 is an existing standard which has been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom.</p>	<p>While the implementation has been deferred, given the significance this new standard is likely to have on the financial statements when it is introduced, we have recommended that the disclosure be enhanced. This will include the relevant information including a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements, or if that impact is not known or reasonably estimable, a statement to that effect.</p>
<p>IT Control deficiencies</p> <ul style="list-style-type: none"> <li>To obtain an understanding of the information systems relevant to financial reporting, IT Audit specialists were deployed to complete a design and implementation review of IT general controls of the following applications: <ul style="list-style-type: none"> <li>i-Trent</li> <li>Civica</li> <li>Unit-4</li> <li>Active Directory</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The following tasks were completed as part of this review: <ul style="list-style-type: none"> <li>IT General Controls Testing: Design, implementation assessment over controls for security management; technology acquisition development and maintenance; and technology infrastructure.</li> <li>Performed high level walkthroughs, inspected supporting documentation and analysis of configurable controls in the above areas.</li> <li>Documented the test results and provided evidence of the findings to Leicester City Council's IT function's management for remediation actions where necessary.</li> </ul> </li> </ul>	<p>We have raised recommendations as a result of this work, which are included within Appendix A.</p>

## 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £1,073.3m	<p>Other land and buildings includes specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has an in-house valuer to complete the valuation of properties as at 31 March 2021. 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 is revalued at least every five years.</p> <p>The total net book value of Other land and buildings was £1,073.3m, a net increase of £0.5m from 2019/20 (£1,072.8m).</p> <p>The total net book value of surplus assets was £68.8m, a net decrease of £4.8m from 2019/20 (£73.6m).</p> <p>Management and their valuer have taken into account available market data, and considered a range of available indices, and have used this to determine an appropriate estimate for the indexation of the Council's land and buildings.</p>	<p>In the initial valuation report the valuer disclosed a material uncertainty in the valuation as a result of Covid-19. This is consistent with prior year but was not expected in the current year due to RICS lifting their material uncertainty expectations. We therefore challenged this with the valuer and the material uncertainty has subsequently been lifted and the disclosure will be removed from the accounts.</p> <ul style="list-style-type: none"> <li>We have engaged our own valuer to assist with our work and challenge in this area.</li> <li>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</li> <li>There have been no changes to the valuation method this year.</li> <li>We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. We have considered the completeness and accuracy of the underlying information used to determine the estate, including reviewing and challenging the floor areas.</li> <li>We have discussed the appropriateness of the indices and assumptions used by the Council's valuer and are awaiting responses to our queries before we can conclude on this work, but have already identified some errors as set out on pages 11 and 12.</li> </ul>	TBC

### Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial Statements - key judgements and estimates

## Significant judgement or estimate

### Summary of management's approach

### Audit Comments

### Assessment

Net pension liability – £903m  
(to be updated)

The Council's net pension liability at 31 March 2021 is £903m (PY £600m) [comprising the Leicestershire County Council Local Government [and unfunded defined benefit pension scheme obligations]. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £514m net actuarial loss during 2020/21.

As noted earlier in the report we are expecting a revised valuation from Hymans Robertson, which may impact the value of the net pension liability. However, we are not anticipating the assumptions to change. If they do, we will report our consideration of the revisions to the Council in a future iteration of this report.

- We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.
- We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Leicestershire County Council Pension Fund valuation as it applies to Leicester City Council.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.0%	1.95% - 2.05%	● (G)
Pension increase rate	2.85%	2.85% - 2.8%	● (G)
Salary growth	3.35%	2.8%-3.8% scheme specific	● (G)
Life expectancy – Males currently aged 45 / 65	45: 22.6 65: 21.7	21.8 – 24.3 20.4 – 22.7	● (G)
Life expectancy – Females currently aged 45 / 65	45: 25.9 65: 24.2	25.2 -26.7 23.2 – 24.9	● (G)

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- We are content with the adequacy of the disclosure of the estimate in the financial statements.

Pending receipt of the revised actuarial report we will review the reasonableness of the Council's share of the pension assets and the reasonableness of the movement in the estimate.

TBC

## 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Provisions £14.2m</p> <p>At £9.4m NNDR appeals is the most significant element of the provisions balance.</p>	<p>The Council are responsible for repaying a proportion of successful rateable value appeals. Management uses an external organisation, Wilks, Head &amp; Eve, to help inform the level of provision required. The Council's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The provision has increased by £2.5m in 2020/21.</p>	<ul style="list-style-type: none"> <li>We have assessed management's expert and have no concerns over the competence, capabilities or objectivity of the expert used by the Council.</li> <li>The valuation method is consistent with prior year and consistency with sector norms.</li> <li>We have no concerns in relation to the calculation of the provision.</li> <li>The disclosure of the estimate in the financial statements is adequate.</li> </ul>	Light Purple
<p>38 Land and Buildings – Council Housing - £1,062.5m</p>	<p>The Council owns in excess of 20,000 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Wilks Head &amp; Eve to complete the valuation of these properties, which is a newly engaged valuer with this year being their valuation for the Council.</p> <p>The year end valuation of Council Housing was £1,062.5m, a net increase of £61m from 2019/20 (£1,001.5m).</p>	<ul style="list-style-type: none"> <li>We have engaged our own valuer to assist with our work and challenge in this area.</li> <li>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</li> <li>The housing stock has been divided using the external valuer's judgements and knowledge by applying the beacon methodology. This approach is consistent with the prior year albeit being provided by a different valuer.</li> <li>We have considered the indices that the valuer has used in performing the valuation and are in the process of discussing the appropriateness of these with the Council and its valuer.</li> <li>We have considered the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>We have no matters to bring to your attention except for those already reported to you on page 12 of this report.</li> </ul>	Light Purple

### Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial Statements - key judgements and estimates

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Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £13.0m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance and the Council's policy for the calculation of MRP is set out in its annual budget setting report presented to Council.</p> <p>The year-end MRP charge was £13.0m, a net increase of £2.8m from 2019/20.</p>	<p>We are assessing this estimate, considering:</p> <ul style="list-style-type: none"> <li>whether the MRP has been calculated in line with the statutory guidance</li> <li>whether the Council's policy on MRP complies with statutory guidance.</li> <li>whether any changes to the authority's policy on MRP have been discussed and agreed with those charged with governance and have been approved by full council</li> <li>the reasonableness of the increase in MRP charge</li> </ul> <p>Work on this area is ongoing as at the time of writing.</p>	TBC

## Assessment

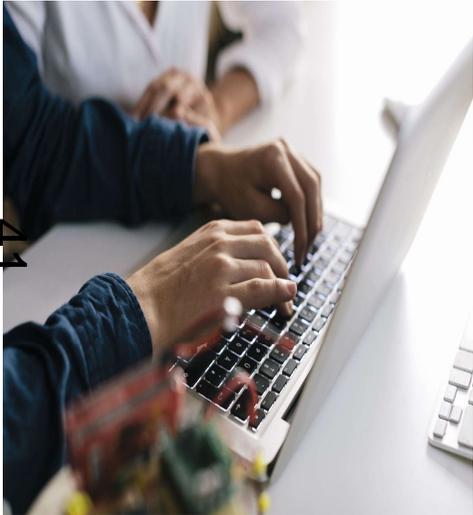
- Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## 2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Risk Committee. We have not been made aware of any incidents in the period other than those identified by the Counter Fraud Service, and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	<p>We are not aware of any related parties or related party transactions which have not been disclosed. A new related party transaction has been disclosed this year: as a result of the Council providing a loan to Leicestershire County Cricket Club, an officer from the Council has been appointed to the Board. However, Code guidance states that the fact that where there is a member of key management personnel in common or the fact that a member of key management personnel of one entity has significant influence over the other entity does not create a related party relationship. Where two entities have a member of key management personnel in common it is necessary to consider the possibility, and to assess the likelihood, that this person would be able to affect the policies of both entities in their mutual dealings.</p> <p>We have therefore asked officers to reconsider this disclosure to determine if the relevant criteria for a related party disclosure have been met.</p>
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is appended at Appendix E.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to those organisations with which it banks, borrows and in which it invests. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements: see Appendix C for the most significant amendments made to disclosures. In addition a small number of amendments were made to improve clarity for the reader.

## 2. Financial Statements - other communication requirements



Issue	Commentary
Audit evidence and explanations/ significant difficulties	<p data-bbox="891 539 1906 563">Management has been co-operative in providing information throughout the course of the audit.</p> <p data-bbox="891 579 1368 603"><b><u>Management's assumptions and estimates</u></b></p> <p data-bbox="891 619 2040 675">The revised auditing standard in relation to estimates has led to heightened scrutiny over the estimates in the accounts, particularly property and pension valuations.</p> <p data-bbox="891 691 2063 770">For property valuations in particular, there has been significant enquiry and challenge with both sets of valuers over the inputs and assumptions applied, as discussed on pages 10 and 14, and our work in these areas is incomplete pending receipt of outstanding responses to our queries and our consideration thereof.</p>

## 2. Financial Statements - other communication requirements



### Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> <li>the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> <li>for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.</li> </ul> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> <li>the nature of the Council and the environment in which it operates</li> <li>the Council's financial reporting framework</li> <li>the Council's system of internal control for identifying events or conditions relevant to going concern</li> <li>management's going concern assessment.</li> </ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> <li>a material uncertainty related to going concern has not been identified</li> <li>management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect - refer to the separate Committee agenda item.</p>

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Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,</li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li> </ul> <p>We currently have nothing to report on these matters.</p>
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Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the group reporting threshold, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>Note that we have been unable to commence this work as the guidance and reporting instructions have not yet been released. We are aware that the Council have recently been notified that the pack will not be made available to them until December.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audit of Leicester City Council in the audit report, as set out in the Audit and Risk Committee's separate agenda item, pending completion of the WGA work and issuance of our Auditor's Annual Report.</p>



# 3. 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.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at 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 the three specified reporting criteria.



### 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

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## Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

# 3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report before Christmas. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any potential risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the potential risk/s set out in the table below. Our work on this risk is underway and an update is set out below.

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Risk of significant weakness	Work performed to date
<p><b>Financial Sustainability</b> (risk as noted in our Audit Plan)</p> <p>The Authority has historically managed its finances well, but 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.</p> <p>Future funding levels are particularly uncertain, with the Government’s planned funding review and significant unknowns around future funding for social care services. While the budget for 2021/22 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 (as at the time of writing our Audit Plan. Following Covid, the Council changed tack for the 2021/22 budget which was explicitly a “stop gap” budget, with the intention of a fuller budget review in time for 2022/23. The 2021/22 budget consequently required £17m of reserves. The work is now in hand to carry out a more fundamental budget review and look at bridging the forecast gap between spending and income of £40m in 2022/23.</p>	<p>We noted that we would review the Council's Medium Term Financial Statement and financial monitoring reports and assess the assumptions being used and savings being achieved.</p> <p>We have considered:</p> <ul style="list-style-type: none"> <li>• how the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them</li> <li>• how the Council plans to bridge its funding gaps and identifies achievable savings</li> <li>• how the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities</li> <li>• how the Council ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system</li> <li>• how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans</li> </ul> <p>We are in the process of drawing our findings together but have not identified any significant weaknesses from the work done to date.</p> <p>As part of our VFM work we have also considered the Council’s governance arrangements, how it has responded to the Covid-19 pandemic and how it ensures economy, efficiency and effectiveness in its service delivery. We have conducted a comprehensive document review and have spoken to several officers of the senior leadership team, as well as the Mayor, and sought corroborating evidence to the discussions held about the arrangements in place. Again, we are in the process of drawing our findings together but have not identified any significant weaknesses from the work done to date.</p>

# 4. Independence and ethics

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, in addition to that we have already drawn to your attention in our Audit Plan, which we report again below for ease of reference and for the purposes of completeness:

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.

46 We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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.

Details of fees charged are detailed in Appendix D.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

# 4. Independence and ethics

## Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, which were charged from the beginning of the financial year to September 2021, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Risk Committee. None of the services provided are subject to contingent fees.

Audit-related service	Fees £	Threats identified	Safeguards
Certification of Housing capital receipts grant	5,075 (expected)	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 is anticipated to be £5,075 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
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 is £5,500 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	54,000 (expected)	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 is anticipated to be £54,000 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

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# Appendices

# A. Action plan – Audit of Financial Statements

We have identified 3 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

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Assessment	Issue and risk	Recommendations
<p>TBC</p> <p>The status of this finding is currently under review pending receipt of further information from management</p>	<p>Segregation of duty conflicts within i-Trent and Unit 4</p> <p>Administrative access to i-Trent and Unit 4 had been granted to users who have financial responsibilities.</p> <p>The combination of financial responsibilities with the ability to administer end-user security is considered a segregation of duties conflict. It increases the risk of these elevated privileges being used to make unauthorised changes to the application, business processes or user accounts by over-riding internal system controls, which could lead to fraud and/or financial misstatement.</p>	<p>It is recommended that:</p> <ol style="list-style-type: none"> <li>1. Management should consider reviewing access rights assigned to all system users to identify and remove conflicting access rights.</li> <li>2. Management should adopt a risk-based approach to create and reassess the segregation of duty matrices on a periodic basis. This should consider whether the matrices continue to be appropriate or required updating to reflect changes within the business.</li> <li>3. If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities [e.g. reviewing system reports of detailed transactions; selecting transactions for review of supporting documents; etc].</li> </ol> <p><b>Management response</b></p> <p>To be confirmed.</p>

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
High	<p><b>Valuation process of other land and buildings</b></p> <p>Errors continue to be identified in relation to the Council's valuation process, across a variety of areas such as typographical errors in valuation certificates, discrepancies between the information upon which the valuer has based their valuations and the information in Concerto (the Council's asset system), as well as the fixed asset register not being updated on a timely basis in respect of asset disposals (in the case of St Margaret's Bus Station).</p>	<p>It is recommended that officers and the valuer ensure that the information used in the valuation process is the most up to date. We also recommend that the valuer documents the rationale behind assumptions applied as the valuations are produced, to ensure that an audit trail is readily available.</p> <p>Secondly we recommend that officers are reminded of the need to notify finance such that any changes to the status of assets, such as them being demolished, or in the case of a capital project, when it's aborted, such that the appropriate financial amendments can be made.</p> <p><b>Management response</b></p>
Medium	<p><b>Useful economic lives of assets</b></p> <p>From review of the Council's fixed asset register, we have identified that there are 880 assets with a gross book value of £35.8m which have no remaining useful economic life.</p> <p>The net book value of these assets is £nil, so they have no impact on the financial statements, however this may be indicative that either:</p> <ul style="list-style-type: none"> <li>there are assets in the fixed asset register that no longer belong to the Council;</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>the useful economic lives assigned to these assets were not appropriate.</li> </ul>	<p>We recommend that the Council review assets with on useful economic life remaining and take action as appropriate based on their findings.</p> <p><b>Management response</b></p>

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# B. Follow up of prior year recommendations

We identified the following issues in the audit of Leicester City Council's 2019/20 financial statements, which resulted in 7 recommendations being reported in our 2019/20 Audit Findings report.

1 of these was reported as being complete in our Audit Plan.

We have followed up on the implementation of the remaining 6 recommendations and have rolled forward 2 for further consideration.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p><b>Valuation Process</b></p> <p>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 recommended 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.</p>	<p>While our work on the valuation process is still underway at the time of writing, we have identified two errors from the work done to date.</p> <p>Therefore, we do not consider this recommendation to be fully addressed and have rolled this recommendation forward into this year's Action Plan, amending it accordingly to reflect the particular errors identified in the current year.</p>
✓	<p><b>Additions to Council Dwellings</b></p> <p>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.</p> <p>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.</p>	<p>We noted that there was a reconciling item between the value of Council Dwellings per the valuer's report and the financial statements to reflect the value of properties purchased between the date the data was passed to the valuer and the year end. This was £1.8m and as last year, has been valued based on purchase price adjusted by the social housing factor. The equivalent figure in the prior year was £10.2m as no additions information had been provided by the valuer all year. We are satisfied with the approach taken by the Council in applying fair value to the properties not reviewed by the valuer and consider this recommendation closed on the grounds that timing differences are to be expected.</p>

## Assessment

- ✓ Action completed
- X Not yet addressed

# B. Follow up of prior year recommendations

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p><b>Internal valuer's terms of engagement</b> 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).</p> <p>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.</p>	<p>Terms of engagement were provided by the internal valuer in respect of the 2020/21 valuations.</p>
✓	<p><b>Declarations of interests</b> 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.</p>	<p>While we did not identify any such recurrences as part of our 2020/21 planning work, we reported in our Audit Plan that we would keep this recommendation open until such time as we have concluded upon our work in this area for the financial statements.</p> <p>Having now completed this work, we have not identified any recurrences in respect of undeclared interests and therefore consider this action completed.</p>

## Assessment

- ✓ Action completed
- X Not yet addressed

# B. Follow up of prior year recommendations

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Value for Money and Other Areas		
Ongoing	<p><b>Review of savings and ongoing monitoring</b> 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.</p>	This is being considered as part of our 2020/21 work on value for money.
✓	<p><b>Fixed Penalty Notices</b> 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.</p> <p>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.</p>	The Deputy Director of Finance, divisional Director, Monitoring Officer and divisional standards lead considered this matter, and having discussed the steps taken with the Deputy Director of Finance and Monitoring Officer, we are satisfied that the matter has been addressed, and note that a review of performance measures for the services has been undertaken during the year.

## Assessment

- ✓ Action completed
- X Not yet addressed

# C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021. Note that there are elements of our audit which are still underway as at the time of writing and therefore there could be further amendments required.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure £'000
Derecognition of St Margaret's Bus Station	-	-10.1m	-
Derecognition of the Waterside assets under construction	TBC	-2.5m	TBC
Overall impact	£TBC	-£12.6m	£TBC

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission/misclassification	Adjusted?
<p><b>Note 8</b></p> <p>£36.4m shown against taxation and non-specific grant income, which should be £75.2m with the corresponding difference going to Corporate items. This is a disclosure item only.</p> <p>This amendment was identified by officers but is noted here as it represents a change from the draft accounts.</p>	TBC pending receipt and review of revised financial statements.
<p><b>Note 35 Grant Income</b></p> <p>Items in the note for total credited to services and total recognised in year for prior year did not match to the prior year accounts leading to a difference of £11m. This was due to lines being deleted in error from the draft accounts. These have been reinstated</p>	

# C. Audit Adjustments

## Misclassification and disclosure changes (continued)

### Disclosure omission/misclassification

### Adjusted?

#### Material uncertainties

Material uncertainties were disclosed in the accounts in respect of the valuation of other land and building and the property assets in the pension fund. For the latter of these this had been erroneously rolled forward from the prior year accounts. For the former, the valuer has updated his opinion based on revised RICs guidance and has determined that his valuation is no longer issued on the basis of material uncertainty.

TBC pending receipt and review of revised financial statements.

#### Better Care Fund

Comparatives for the year ending 31 March 2020 have been added to the Better Care fund disclosure within the Pooled Budgets note.

#### Heritage assets

It was reported that there had been a change in methodology during the year. However, this change was reported last year and therefore had been rolled forward erroneously. This wording has now been updated.

# C. Audit Adjustments

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## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit and Risk Committee is required to approve management's proposed treatment of all items recorded within the table below. Note that there are elements of our audit which are still underway as at the time of writing and therefore there could be further amendments required.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
TBC	TBC	TBC	TBC	TBC
TBC	TBC	TBC	TBC	TBC
Overall impact	£X,XXX	£X,XXX	£X,XXX	

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<b>Assets not valued</b> There was £27.4m of other land and buildings that were not subject to revaluation as at 31 March 2020. 4 additional assets were subsequently revalued which would have the effect of increasing the Council's other land and buildings by £9.3m	-	Increase valuation by £9.3m  Increase revaluation reserve by £9.3m	-	superseded by current year valuation

# C. Audit Adjustments

## Impact of prior year unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure £'000	Reason for not adjusting
<p><b>Valuations not processed</b> During our reconciliation of the valuer's certificates to the fixed asset register we identified assets which had not been processed but should have been. Had these adjustments been processed the value of the Council's other land and buildings would have increased by £2.5m.</p>	-	<p>Increase valuation by £2.5m</p> <p>Increase revaluation reserve by £2.5m</p>	-	superseded by current year valuation
<p><b>Valuation errors</b> As a result of various errors identified as part of our sample testing of valuations it was identified that the Council's other land and buildings are undervalued by £1.224m.</p>	-	<p>Increase valuation by £1.2m</p> <p>Increase revaluation reserve by £1.2m</p>	-	superseded by current year valuation
<b>Overall impact</b>	£-	£13m	£-	



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# D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	£173,734	£173,734*
Total audit fees (excluding VAT)	£173,734	£173,734

\* See overleaf for a breakdown of the fee. This information was provided in our Audit Plan but is reproduced overleaf for completeness.

58 The disclosure in Note 33 of the accounts is as follows and with the exception of rounding we are satisfied that statutory fees as well as non-audit fees for other services as set out in this report, reconciles to the financial statements, with the exclusion of the proposed uplift of £23k between prior year's actual fees of £150,167 and current year fees of £173,734 as it is not yet agreed and is subject to approval by PSAA.

	Restated	
	2019/20	2020/21
	£000	£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
<b>Total</b>	<b>215</b>	<b>215</b>

## Non-audit fees for other services

## Fees\*\*

### Audit Related Services:

• Housing capital receipts	£5,075
• Teachers Pension Return	£5,500
• Housing Benefit Subsidy Claim	£54,000
<b>Total non-audit fees (excluding VAT)</b>	<b>£64,575</b>

\*\* These are proposed fees as the work in respect of these grant claims is either incomplete or has not yet commenced. Therefore we are not in a position to confirm final fees as at the time of writing.

# D. Fees – detailed analysis

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Scale fee published by PSAA		£112,884
Ongoing increases to scale fee first identified in 2019/20		
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
New issues for 2020/21		
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

# E. Management Letter of Representation

## Leicester City Council

### Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Leicester City Council for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of the net pension liability and the valuation of land and buildings. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering 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 estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Council has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

# E. Management Letter of Representation (continued)

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- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
  - a. the nature of the Council means that, notwithstanding any intention to liquidate the Council or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern will still provide a faithful representation of the items in the financial statements

- b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
- c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

## Information Provided

- xv. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

# E. Management Letter of Representation (continued)

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- a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
  - xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
  - xxii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
  - xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

## Annual Governance Statement

- xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

## Narrative Report

- xxiv. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

## Approval

The approval of this letter of representation was minuted by the Council's Audit and Risk Committee at its meeting on 29 September 2021.

# F. Audit letter in respect of delayed VFM work

Note that this letter does not form part of our formal communications under ISA 260 (Communication with Those Charged with Governance) but is included here for ease of reference.

Councillor Manjit Kaur Saini  
Audit and Risk Committee Chair  
Leicester City Council  
115 Charles Street  
Leicester  
LE1 1FZ

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Dear Councillor Manjit Kaur Saini, Chair of Audit and Risk Committee as TCWG,

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 December 2021.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

**Grant Patterson**

Director and Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor



# 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

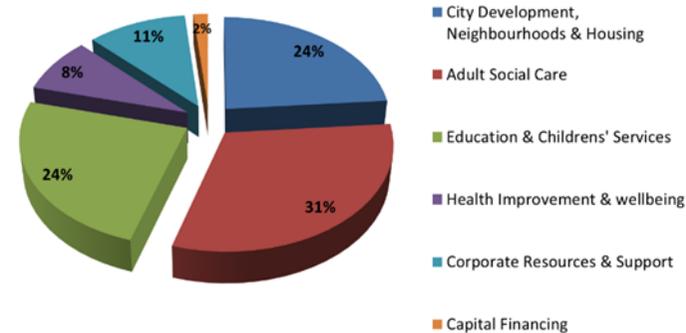
The budget for 2020/21 followed a decade of Government austerity. It was a one year budget, set in anticipation of more detailed spending plans from the Government for 2021/22 onwards. Shortly after the budget was agreed, a pandemic was declared, and the focus became on monitoring the financial impact. 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.

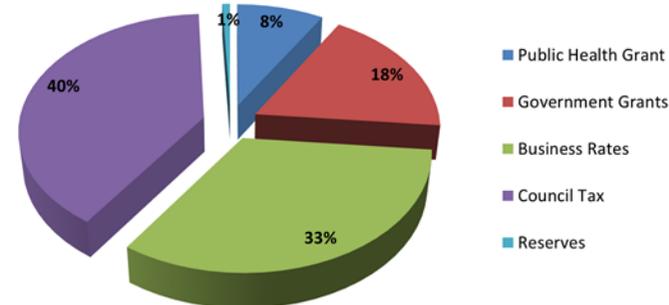
The services above are funded through various resources as demonstrated below.

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)

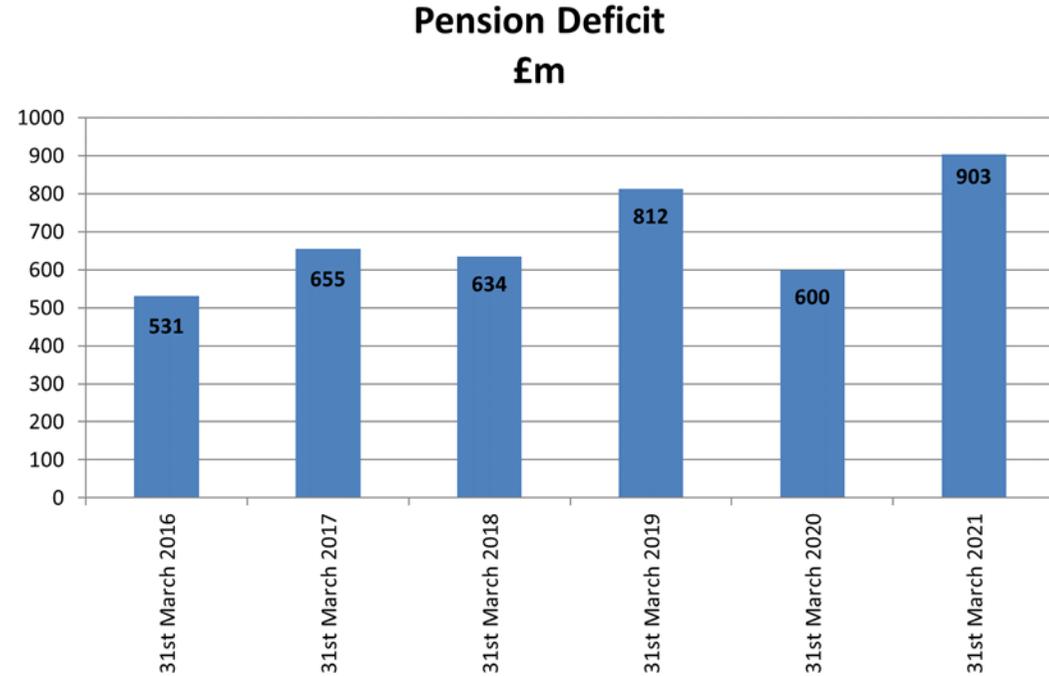


# Narrative Statement

## 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, whilst also taking into account the contributions made by the Council.

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.

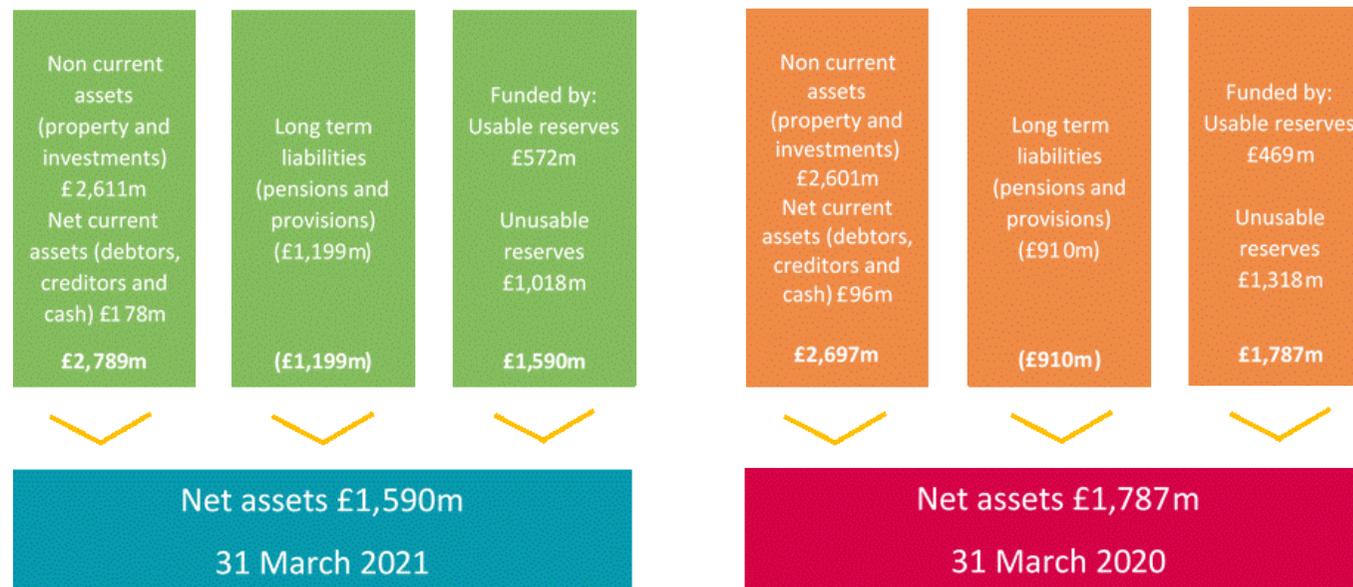


# Narrative Statement

## Net Assets

The Council maintains a strong balance sheet despite financial challenges, with net assets of £1,590m 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
<b>TOTAL</b>	<b>139.1</b>	

# 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 31<sup>st</sup> 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.

	<b>20/21</b> £000's
<b>Income</b>	
Grants	640
Contributions	250
National and Local Programme Income	1,422
Fees, Interest and Other Income	511
	<u>2,823</u>
<b>Expenditure</b>	
Staffing	929
Running Costs	332
Accountable Body Costs	182
Programme Delivery	1,307
	<u>2,750</u>
<b>Net Surplus / (Deficit)</b>	<u><b>73</b></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 150) 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, which is available on the Council's website.

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 pre-empting 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 31<sup>st</sup> March 2021.

**Signed:**

**Alison Greenhill CPFA, Chief Operating Officer & S151 Officer    Date:**

# 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 £197m.

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		£000	£000	£000
192,326	(65,792)	126,534	City Development & Neighbourhoods	175,946	(52,696)	123,250
83,625	(79,655)	3,970	Housing Revenue Account (HRA)	80,912	(79,888)	1,024
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	377,888	(291,964)	85,924
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)
<b>1,005,195</b>	<b>(651,253)</b>	<b>353,942</b>	<b>Cost of Services</b>	<b>993,458</b>	<b>(662,163)</b>	<b>331,295</b>

## 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)
		<b>134,297</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>14</b>		<b>(27,649)</b>
		(74,561)	(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets	26b		(53,456)
		(254,639)	Remeasurement of the Net Defined Benefit Pension Liability	42		277,823
		<b>(329,200)</b>	<b>Other Comprehensive Income &amp; Expenditure</b>			<b>224,367</b>
		<b>(194,903)</b>	<b>Total Comprehensive Income &amp; Expenditure</b>			<b>196,718</b>

# 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
<b>Balance at 31st March 2020 brought forward</b>		<b>(15,000)</b>	<b>(244,434)</b>	<b>(259,434)</b>	<b>(32,825)</b>	<b>-</b>	<b>(110,441)</b>	<b>(66,628)</b>	<b>(469,328)</b>	<b>(1,317,779)</b>	<b>(1,787,107)</b>
Total Comprehensive Expenditure and Income		(40,856)		(40,856)	13,207				(27,649)	224,367	196,718
Adjustments between accounting basis & Funding basis under regulation	9	(42,922)		(42,922)	(16,139)		(6,357)	(9,403)	(74,821)	74,821	-
Transfers to/(from) Earmarked Reserves	10, 25	83,778	(83,778)	-					-		-
<b>Balance at 31st March 2021 carried forward</b>		<b>(15,000)</b>	<b>(328,212)</b>	<b>(343,212)</b>	<b>(35,757)</b>	<b>-</b>	<b>(116,798)</b>	<b>(76,031)</b>	<b>(571,798)</b>	<b>(1,018,591)</b>	<b>(1,590,389)</b>

## Movement in Reserves (continued)

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

# 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.

<b>31st March 2020</b>		<b>Note</b>	<b>31st March 2021</b>
<b>£000</b>			<b>£000</b>
2,410,395	Property, Plant & Equipment	15	2,467,178
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
<b>2,600,657</b>	<b>Long Term Assets</b>		<b>2,611,468</b>
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
<b>272,459</b>	<b>Current Assets</b>		<b>370,883</b>

## 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)
<b>(176,319)</b>	<b>Current Liabilities</b>		<b>(192,959)</b>
(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)
<b>(909,691)</b>	<b>Long Term Liabilities</b>		<b>(1,199,004)</b>
<b>1,787,106</b>	<b>Net Assets</b>		<b>1,590,388</b>
	<u>Represented by:</u>		
469,328	Usable Reserves	25	571,798
1,317,778	Unusable Reserves	26	1,018,590
<b>1,787,106</b>	<b>Total Reserves</b>		<b>1,590,388</b>

# 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		(27,649)
(260,918)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	27	(136,161)
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
<b>(49,907)</b>	<b>Net cash flows from Operating Activities</b>		<b>(54,241)</b>
50,997	Net cash flows from Investing Activities	28	(21,076)
(18,460)	Net cash flows from Financing Activities	29	31,569
<b>(17,370)</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>		<b>(43,748)</b>
41,673	Cash in hand / (overdraft) and cash equivalents at the beginning of the reporting period		59,043
<b>59,043</b>	<b>Cash in hand / (overdraft) and cash equivalents at the end of the reporting period</b>	<b>21</b>	<b>102,791</b>

# 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 in 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	62,474	60,776	123,250
Housing Revenue Account (HRA)	(11,942)	12,966	1,024
Adult Social Care	96,086	2,721	98,807
Health Improvement & Wellbeing	(6,039)	438	(5,601)
Education & Children's Services	52,271	33,653	85,924
Corporate Resources & Support	30,635	2,215	32,850
Housing Benefits	(1,353)	-	(1,353)
Corporate Items	11,495	(14,584)	(3,089)
Capital Financing	(517)	-	(517)
<b>Cost of Services</b>	<b>233,110</b>	<b>98,185</b>	<b>331,295</b>
Other Operating Expenditure	(409)	(556)	(965)
Financing and Investment Income and Expenditure	27,431	893	28,324
Taxation and Non-Specific Grant Income	(346,842)	(39,461)	(386,303)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(86,710)</b>	<b>59,061</b>	<b>(27,649)</b>
<b>Movement in Balances</b>	<b>General Fund / Earmarked Reserves</b>	<b>HRA</b>	<b>Total</b>
Opening Balance	(259,434)	(32,825)	(292,259)
Surplus or Deficit in the Year	(83,778)	(2,932)	(86,710)
<b>Closing Balance</b>	<b>(343,212)</b>	<b>(35,757)</b>	<b>(378,969)</b>

## 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)
<b>Cost of Services</b>	<b>216,721</b>	<b>137,221</b>	<b>353,942</b>
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)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(24,746)</b>	<b>159,043</b>	<b>134,297</b>
<b>Movement in Balances</b>	<b>General Fund / Earmarked Reserves</b>	<b>HRA</b>	<b>Total</b>
Opening Balance	(237,005)	(30,508)	(267,513)
Surplus or Deficit in the Year	(22,429)	(2,317)	(24,746)
<b>Closing Balance</b>	<b>(259,434)</b>	<b>(32,825)</b>	<b>(292,259)</b>

## 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 31<sup>st</sup> 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 (Value - £2.6bn) (Depreciation - £139m) Refer to Note 15.	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.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.  It is estimated that the annual depreciation charge for buildings would increase by approximately £2m for every year that useful lives had to be reduced.
Fair Value Measurements (Surplus Assets - £69m) Refer to Note 15.	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.	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.  An increase of 5% in the overall valuation would result in an increase in value of £3.5m.

**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 (Pension liability - £903m)  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	123,250	(57,192)	(3,057)	(526)	(60,775)	62,475
Housing Revenue Account (HRA)	1,024	(11,696)	(1,352)	82	(12,966)	(11,942)
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	85,924	(30,882)	(3,430)	659	(33,653)	52,271
Corporate Resources & Support	32,850	(156)	(1,716)	(343)	(2,215)	30,635
Housing Benefits	(1,353)				-	(1,353)
Corporate Items	(3,089)	14,031	292	261	14,584	11,495
Capital Financing	(517)				-	(517)
<b>Cost of Services</b>	<b>331,295</b>	<b>(87,071)</b>	<b>(11,001)</b>	<b>(112)</b>	<b>(98,184)</b>	<b>233,111</b>
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)	75,228		(35,768)	39,460	(346,843)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(27,649)</b>	<b>1,747</b>	<b>(24,928)</b>	<b>(35,880)</b>	<b>(59,061)</b>	<b>(86,710)</b>

## 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	
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)
<b>Cost of Services</b>	<b>353,942</b>	<b>(112,596)</b>	<b>(23,748)</b>	<b>(877)</b>	<b>(137,221)</b>	<b>216,721</b>
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)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>134,297</b>	<b>(119,667)</b>	<b>(43,501)</b>	<b>4,125</b>	<b>(159,043)</b>	<b>(24,746)</b>

## 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	Movment in Unusable Reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Account:						
Charges for depreciation, capital expenditure not adding value and amortisation of non-current assets	(78,492)	(25,543)	-	-	-	104,035
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)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Account:</b>						
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)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	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	-	-	-

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

Adjustment Continued	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
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>						
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				-	-	-
<b>Adjustments primarily involving the Major Repairs Reserve:</b>						
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)
<b>Adjustments primarily involving the Capital Grants Unapplied Reserve:</b>						
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	-
<b>Adjustments primarily involving the Financial Instruments Adjustments Account:</b>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	261	359	-	-	-	(620)
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(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)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	(35,768)	-	-	-	-	35,768
<b>Adjustment primarily involving the Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(455)	(278)	-	-	-	733
<b>Total Adjustments</b>	<b>(42,922)</b>	<b>(16,139)</b>	<b>(6,356)</b>	<b>-</b>	<b>(9,404)</b>	<b>(74,821)</b>

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

Adjustment	2019/20					Movemnt in Unusable Reserves £000
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000	£000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Account:						
Charges for depreciation, capital expenditure not adding value and amortisation of non-current assets	(85,019)	(26,177)	-	-	-	<b>111,196</b>
Revaluation gain/(losses) on Property Plant and Equipment	(15,311)	(375)	-	-	-	<b>15,686</b>
Capital grants and contributions applied	51,722	22	-	-	-	<b>(51,744)</b>
Capital expenditure funded from revenue	4,712	-	-	-	-	<b>(4,712)</b>
Revenue expenditure funded from capital under statute	(13,071)	-	-	-	-	<b>13,071</b>
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)	-	-	-	<b>85,068</b>
Income recognised in respect of donated assets	80	-	-	-	-	<b>(80)</b>
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Account:</b>						
Statutory provision for the financing of capital investment	11,416	355	-	-	-	<b>(11,771)</b>
Voluntary provision for the financing of capital expenditure	-	-	-	-	-	-
Capital expenditure charged against the General Fund and HRA balances	-	2,881	-	-	-	<b>(2,881)</b>
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	9,216	18,405	(27,621)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	20,806	-	-	<b>(20,806)</b>
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	Movement in Unusable Reserves £000
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>						
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)
<b>Adjustments primarily involving the Major Repairs Reserve:</b>						
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)
<b>Adjustments primarily involving the Capital Grants Unapplied Reserve:</b>						
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	-
<b>Adjustments primarily involving the Financial Instruments Adjustments Account:</b>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	261	360	-	-	-	(621)
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(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)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	4,381	-	-	-	-	(4,381)
<b>Adjustment primarily involving the Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(975)	97	-	-	-	878
<b>Total Adjustments</b>	<b>(139,296)</b>	<b>(19,747)</b>	<b>(4,618)</b>	<b>-</b>	<b>3,037</b>	<b>160,624</b>

## Note 10 - Movement in Earmarked Reserves

Earmarked reserves are amounts set aside to provide financing for future expenditure plans. The table below provides a list of reserves held by the Council. 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 £000	Transfers In 2020/21 £000	Transfers Out 2020/21 £000	Balance at 31st March 2021 £000
<b>Ring-fenced Reserves</b>				
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
<b>Total Ring-fenced Reserves</b>	<b>27,453</b>	<b>39,240</b>	<b>(5,571)</b>	<b>61,122</b>
<b>Corporate Reserves</b>				
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
<b>Total Corporate Reserves</b>	<b>169,920</b>	<b>68,371</b>	<b>(29,422)</b>	<b>208,869</b>
<b>Earmarked Reserves Departmental</b>				
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
<b>Total Other Reserves</b>	<b>47,061</b>	<b>18,596</b>	<b>(7,436)</b>	<b>58,221</b>
<b>Total Earmarked Reserves</b>	<b>244,434</b>	<b>126,207</b>	<b>(42,429)</b>	<b>328,212</b>

\*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
<b>Ring-fenced Reserves</b>				
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
<b>Total Ring-fenced Reserves</b>	<b>33,239</b>	<b>10,456</b>	<b>(16,242)</b>	<b>27,453</b>
<b>Corporate Reserves</b>				
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
<b>Total Corporate Reserves</b>	<b>149,008</b>	<b>98,119</b>	<b>(77,207)</b>	<b>169,920</b>
<b>Earmarked Reserves Departmental</b>				
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
<b>Total Other Reserves</b>	<b>39,758</b>	<b>22,876</b>	<b>(15,573)</b>	<b>47,061</b>
<b>Total Earmarked Reserves</b>	<b>222,005</b>	<b>131,451</b>	<b>(109,022)</b>	<b>244,434</b>

## 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)
<b>Total</b>	<b>54,851</b>	<b>(965)</b>

## 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)
<b>Total</b>	<b>35,096</b>	<b>28,324</b>

## 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)
<b>Total</b>	<b>(309,592)</b>	<b>(386,303)</b>

\*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
<b>Expenditure</b>		
Employee Benefit Expenses	411,011	399,812
Other Services expenses	516,109	513,147
Depreciation, amortisation, impairment	111,194	104,035
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)
<b>Total Expenditure</b>	<b>1,136,229</b>	<b>1,047,702</b>
<b>Income</b>		
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)
<b>Total Income</b>	<b>(1,001,932)</b>	<b>(1,075,351)</b>
<b>(Surplus) or Deficit on Provision of Services</b>	<b>134,297</b>	<b>(27,649)</b>

## 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
<b>Cost or Valuation</b>									
At 1st April 2020	1,001,516	1,079,555	100,599	285,045	4,302	73,633	3,020	<b>2,547,670</b>	137,898
Additions	40,856	24,439	11,401	38,212	183	3,168	4,692	<b>122,951</b>	11,301
Revaluation									
Increases/(Decreases) recognised in the Revaluation Reserve	43,840	(32,268)	(3,540)	-	(82)	330	-	<b>8,280</b>	(7,212)
Revaluation									
Increases/(Decreases) not recognised in the Revaluation Reserve	(12,455)	(8,432)	(38)	(25,375)	(842)	(1,919)	(2,498)	<b>(51,559)</b>	-
De-recognition – disposals	(11,212)	(856)	(1,702)	-	(4)	(6,083)	-	<b>(19,857)</b>	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	(246)	-	<b>(246)</b>	-
Asset reclassified (other)	-	781	-	(48)	(1,318)	(55)	-	<b>(640)</b>	-
<b>As at 31st March 2021</b>	<b>1,062,545</b>	<b>1,063,219</b>	<b>106,720</b>	<b>297,834</b>	<b>2,239</b>	<b>68,828</b>	<b>5,214</b>	<b>2,606,599</b>	<b>141,987</b>

## 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
<b>Accumulated Depreciation &amp;</b>									
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	29,375	4,131	-	29	53	-	44,472	9,625
Depreciation written out to the Surplus/Deficit on the provision of services	-	1,965	-	-	-	9	-	1,974	-
De-recognition – disposals	-	57	1,626	-	-	1	-	1,684	-
Assets reclassified to/(from) Held for Sale	-	-	-	-	-	-	-	-	-
<b>As at 31st March 2021</b>	-	(17)	(56,306)	(83,100)	-	-	-	(139,423)	(11,029)
<b>Net Book Value as at 31st March 2021</b>	<b>1,062,545</b>	<b>1,063,202</b>	<b>50,414</b>	<b>214,734</b>	<b>2,239</b>	<b>68,828</b>	<b>5,214</b>	<b>2,467,176</b>	<b>130,958</b>
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
<b>Cost or Valuation</b>									
At 1st April 2019	950,471	1,171,025	91,682	275,602	4,047	75,833	2,853	<b>2,571,513</b>	137,717
Additions	42,675	23,754	4,267	26,311	96	4,253	167	<b>101,523</b>	4,460
Revaluation									
Increases/(Decreases) recognised in the Revaluation Reserve	43,621	(13,339)	8,086	15	247	(656)	-	<b>37,974</b>	(2,082)
Revaluation									
Increases/(Decreases) not recognised in the Revaluation Reserve	(14,047)	(40,080)	(3,436)	(16,883)	(88)	(4,444)	-	<b>(78,978)</b>	(2,197)
De-recognition – disposals	(21,204)	(60,730)	-	-	-	(1,599)	-	<b>(83,533)</b>	-
Assets reclassified (to)/from Held for Sale	-	(1,075)	-	-	-	246	-	<b>(829)</b>	-
Asset reclassified (other)	-	-	-	-	-	-	-	-	-
<b>As at 31st March 2020</b>	<b>1,001,516</b>	<b>1,079,555</b>	<b>100,599</b>	<b>285,045</b>	<b>4,302</b>	<b>73,633</b>	<b>3,020</b>	<b>2,547,670</b>	<b>137,898</b>

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

## Note 15 Property, Plant and Equipment - Capital Commitments

At 31<sup>st</sup> 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 31<sup>st</sup> March 2020 were £19.5m. The significant commitments are:

<b>Contract for Capital Investment</b>	<b>Period</b>	<b>£000</b>
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 Radio Frequency Identification (RFID) Library Self-Service	2021-22	272
<b>Total</b>		<b>26,230</b>

## 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	-	5,216	383,115
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	1,063,143	25,376	633	2,099	68,793	-	2,222,589
<b>Total</b>	<b>1,062,545</b>	<b>1,063,219</b>	<b>106,720</b>	<b>297,834</b>	<b>2,239</b>	<b>68,828</b>	<b>5,216</b>	<b>2,606,601</b>

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 31<sup>st</sup> 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. 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
<b>Cost or Valuation</b>				
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
<b>As at 31st March 2021</b>	<b>2,463</b>	<b>83,100</b>	<b>5,876</b>	<b>91,439</b>
<b>2019/20 Comparative Movements</b>				
	£000	£000	£000	£000
<b>Cost or Valuation</b>				
At 1st April 2019	2,883	83,468	5,876	92,227
Additions	-	83	-	83
Disposals	-	-	-	-
Revaluations	(389)	(1,430)	-	(1,819)
<b>As at 31st March 2020</b>	<b>2,494</b>	<b>82,121</b>	<b>5,876</b>	<b>90,491</b>

## 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
<b>Balance at 1st April</b>		
Gross Carrying Amounts	3,438	3,438
Accumulated Amortisation	(1,838)	(2,498)
<b>Net carrying amount at 1st April</b>	<b>1,600</b>	<b>940</b>
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)
<b>Net Carrying Amount at 31st March</b>	<b>940</b>	<b>1,522</b>

## 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 £000	31st March 2021 £000	
<b>Long Term Investments</b>			
<b>Amount in Balance Sheet</b>	<b>85,000</b>	<b>38,000</b>	
Amounts covered in Note 18:	85,000	38,000	This note - section B Table 2
<b>Short Term Investments</b>			
<b>Amount in Balance Sheet</b>	<b>153,712</b>	<b>168,439</b>	
Amounts covered in Note 18:	153,712	168,439	This note - section B Table 2
<b>Short Term Borrowing</b>			
<b>Amount in Balance Sheet</b>	<b>34,046</b>	<b>13,744</b>	
Amounts covered in Note 18:	34,046	13,744	This note - section B Table 1
<b>Long Term Borrowing</b>			
<b>Amount in Balance Sheet</b>	<b>180,115</b>	<b>180,111</b>	
Amounts covered in Note 18:	180,115	180,111	This note - section B Table 1
<b>Other Long Term Liabilities</b>			
<b>Amount in Balance Sheet</b>	<b>703,168</b>	<b>1,003,410</b>	
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		
<b>Total Borrowing</b>	<b>180,115</b>	<b>180,111</b>	<b>34,046</b>	<b>13,744</b>
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
<b>Total Other Long-term Liabilities</b>	<b>102,029</b>	<b>99,540</b>	<b>5,884</b>	<b>4,629</b>
Liabilities at amortised cost:				
- Trade payables	-	-	54,816	57,110
- PFI arrangements	489	462	-	-
<b>Included in Creditors</b>	<b>489</b>	<b>462</b>	<b>54,816</b>	<b>57,110</b>
<b>Total Financial Liabilities</b>	<b>282,633</b>	<b>280,113</b>	<b>94,746</b>	<b>75,483</b>

## 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 £000	31st March 2021 £000	31st March 2020 £000	31st March 2021 £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
<b>Total Investments</b>	<b>85,000</b>	<b>38,000</b>	<b>153,712</b>	<b>168,439</b>
Amortised cost:				
- Cash (including bank accounts)	-	-	15,943	33,592
Other:				
- Cash equivalents at fair value through profit and loss	-	-	43,100	69,200
<b>Total Cash and Cash Equivalents</b>	<b>-</b>	<b>-</b>	<b>59,043</b>	<b>102,792</b>
Amortised Cost:				
- Trade receivables	4,305	4,313	8,611	3,413
- Loans made for service purposes	8,959	8,311	758	392
<b>Included in Debtors</b>	<b>13,264</b>	<b>12,624</b>	<b>9,369</b>	<b>3,805</b>
<b>Total Financial Assets</b>	<b>98,264</b>	<b>50,624</b>	<b>222,124</b>	<b>275,036</b>

## 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		2020/21 Total	2019/20 Total
	Amortised Cost	Amortised Cost	Other		
	£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
<b>Net (gains)/losses</b>	-	<b>(13)</b>	<b>145</b>	<b>132</b>	<b>2,172</b>
Interest expense	17,248	-	-	17,248	18,550
<b>Interest payable and similar charges</b>	<b>17,248</b>	-	-	<b>17,248</b>	<b>18,550</b>
Interest income	-	(2,428)	(291)	(2,719)	(2,885)
Dividends	-	-	(132)	(132)	(322)
<b>Interest and investment income</b>	-	<b>(2,428)</b>	<b>(423)</b>	<b>(2,851)</b>	<b>(3,207)</b>
<b>Net (Gain)/Loss for the Year</b>	<b>17,248</b>	<b>(2,441)</b>	<b>(278)</b>	<b>14,529</b>	<b>17,515</b>

## 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 31<sup>st</sup> 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
<b>Total</b>		<b>288,517</b>	<b>439,464</b>	<b>285,996</b>	<b>447,233</b>
Liabilities for which fair value is not disclosed *		88,862		70,855	
<b>Total Financial Liabilities</b>		<b>377,379</b>	<b>439,464</b>	<b>356,851</b>	<b>447,233</b>
<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	
<b>Total Financial Liabilities</b>		<b>377,379</b>		<b>356,851</b>	

\*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	Balance Sheet	Fair Value	Balance Sheet	Fair Value
	Level	£000	£000	£000	£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
<b>Total</b>		<b>144,666</b>	<b>145,755</b>	<b>122,973</b>	<b>123,469</b>
Assets for which fair value is not disclosed *		175,723	-	202,675	-
<b>Total Financial Assets</b>		<b>320,389</b>	<b>145,755</b>	<b>325,648</b>	<b>123,469</b>
<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	
<b>Total Financial Assets</b>		<b>320,389</b>		<b>325,648</b>	

\* 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 31<sup>st</sup> 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
<b>Total</b>	<b>2,747</b>	<b>2,811</b>

## Note 20 Debtors

### Long-Term Debtors

The value of long-term debtors as at 31<sup>st</sup> 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
<b>Total</b>	<b>13,831</b>	<b>13,329</b>

### Short-Term Debtors

The value of short-term debtors as at 31<sup>st</sup> 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
<b>Total</b>	<b>54,857</b>	<b>94,995</b>

## Note 21 Cash and Cash Equivalents

The value of cash and cash equivalents as at 31<sup>st</sup> 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
<b>Total Cash and Cash Equivalents</b>	<b>59,043</b>	<b>102,791</b>

## Note 22 Assets Held for Sale

The value of assets held for sale as at 31<sup>st</sup> 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)
<b>Balance at 31st March</b>	<b>2,100</b>	<b>1,847</b>

## Note 23 Creditors

The value of creditors as at 31<sup>st</sup> 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
<b>Total</b>	<b>137,653</b>	<b>173,656</b>

## 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
<b>Balance at 1st April 2019</b>	<b>3,942</b>	<b>1,050</b>	<b>39</b>	<b>697</b>	<b>6,926</b>	<b>12,654</b>
Net Movement (additions less amounts used)	(165)	(45)	-	(12)	4,712	4,490
<b>Balance at 1st April 2020</b>	<b>3,777</b>	<b>1,005</b>	<b>39</b>	<b>685</b>	<b>11,638</b>	<b>17,144</b>
2020/21 Provisions/(Reductions)	(3,614)	-	-	88	1,770	(1,756)
Amounts used in 2020/21	3,144	(348)	-	-	(3,962)	(1,166)
<b>Balance at 31st March 2021</b>	<b>3,307</b>	<b>657</b>	<b>39</b>	<b>773</b>	<b>9,446</b>	<b>14,222</b>

### 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
<b>Total General Fund Reserves</b>	<b>(259,434)</b>	<b>(83,778)</b>	<b>(343,212)</b>	
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
<b>Total Usable Reserves</b>	<b>(469,328)</b>	<b>(102,470)</b>	<b>(571,798)</b>	

## 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)	(967,158)
Capital Adjustment Account	(1,004,281)	(1,015,424)
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
<b>Total Unusable Reserves</b>	<b>(1,317,778)</b>	<b>(1,018,591)</b>

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

	2019/20	2020/21
	£000	£000
<b>Balance at 1st April</b>	<b>(923,043)</b>	<b>(938,563)</b>
Upward revaluation of assets	(115,818)	(92,520)
Downward revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services	41,257	39,063
<b>(Surplus) or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	<b>(74,561)</b>	<b>(53,457)</b>
Difference between fair value depreciation and historical cost depreciation	19,149	19,381
Accumulated gains on assets sold or scrapped	39,892	5,481
<b>Balance at 31st March</b>	<b>(938,563)</b>	<b>(967,158)</b>

## 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 1<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains. The table below provides details of the source of all the transactions posted to the account.

	2019/20	2020/21
	£000	£000
<b>Balance at 1st April</b>	<b>(1,066,605)</b>	<b>(1,004,281)</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation & impairment	110,535	103,375
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
	<b>(841,584)</b>	<b>(868,750)</b>
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	<b>(900,625)</b>	<b>(893,611)</b>
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)	(77,170)
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)
<b>Balance at 31st March</b>	<b>(1,004,281)</b>	<b>(1,015,424)</b>

## 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
<b>Balance at 1st April</b>	<b>20,909</b>	<b>20,288</b>
Proportion of discounts incurred in previous financial years to be credited to the General Fund Balance in accordance with statutory requirements	(621)	(620)
<b>Balance at 31st March</b>	<b>20,288</b>	<b>19,668</b>
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(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
<b>Balance at 1st April</b>	<b>(1,298)</b>	<b>(1,416)</b>
Transfer of deferred sale proceeds to the DCCR	(406)	-
Transfer to the Capital Receipts Reserve upon receipt of cash	288	293
<b>Balance at 31st March</b>	<b>(1,416)</b>	<b>(1,123)</b>

## 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
<b>Balance at 1st April</b>	<b>811,626</b>	<b>600,488</b>
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)
<b>Balance at 31st March</b>	<b>600,488</b>	<b>903,239</b>

## 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
<b>Balance at 1st April</b>	<b>2,243</b>	<b>(2,138)</b>
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(4,381)	35,768
<b>Balance at 31st March</b>	<b>(2,138)</b>	<b>33,630</b>

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	2019/20	2020/21
	£000	£000
<b>Balance at 1st April</b>	<b>6,966</b>	<b>7,844</b>
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
<b>Balance at 31st March</b>	<b>7,844</b>	<b>8,577</b>

### Accumulated Absences Account

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

## 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
<b>Net interest</b>	<b>15,343</b>	<b>14,397</b>

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)	(52,123)
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)	(17,274)
Other non-cash items charged to the net surplus or deficit on the provision of services	(5,174)	2,776
	<b>(260,918)</b>	<b>(136,161)</b>

## 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
	<b>76,714</b>	<b>109,569</b>

## 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)
<b>Net Cash Flows from Investing Activities</b>	<b>50,997</b>	<b>(21,076)</b>

## 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
<b>Net Cash Flows from Financing Activities</b>	<b>(18,460)</b>	<b>31,569</b>

## 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
<b>Funding provided to the pooled budget:</b>		
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
<b>Total Funding provided to the pooled budget</b>	<b>5,482</b>	<b>5,895</b>
<b>Total Expenditure met from the pooled budget</b>	<b>5,482</b>	<b>5,895</b>

## 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.

	2019/20	2020/21
	£000	£000
<b>Income</b>		
<b>Revenue</b>		
CCG Minimum Fund	23,936	25,250
Improved Better Care Fund (iBCF)	15,467	17,040
Winter Pressures	1,574	
Additional CCG Contribution		3,500
<b>Total Revenue Income</b>	<b>40,977</b>	<b>45,790</b>
Capital-Disabled Facilities Grant	2,392	2,714
<b>Total Income</b>	<b>43,369</b>	<b>48,504</b>
<b>Expenditure</b>		
<b>Revenue</b>		
Actual Spend incurred by LCC managed schemes incl IBCF	32,693	33,783
Actual spend incurred by LCCCG & LPT (Leicestershire Partnership Trust) managed schemes	6,536	12,007
<b>Total Revenue Expenditure</b>	<b>39,229</b>	<b>45,790</b>
<b>Capital</b>		
Disabled Facilities Grant	2,392	2,714
<b>Total Capital Expenditure</b>	<b>2,392</b>	<b>2,714</b>
<b>Total Expenditure</b>	<b>41,621</b>	<b>48,504</b>
<b>Revenue - Net outturn over/(under) spend:</b>	<b>(1,748)</b>	<b>-</b>

## 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
<b>Total</b>	<b>1,059,999</b>	<b>1,077,347</b>

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

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

## 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: 2019/20 has been restated to reflect additional charges received.

	<b>Restated</b>	
	<b>2019/20</b>	<b>2020/21</b>
	<b>£000</b>	<b>£000</b>
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
<b>Total</b>	<b>215</b>	<b>215</b>

## 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
<b>Final DSG for 2020/21 before Academy recoupment</b>			<b>346,578</b>
Academy figure recouped for 2020/21	-	-	(120,035)
<b>Total DSG after Academy recoupment for 2020/21</b>			<b>226,543</b>
Brought forward from 2019/20	-	-	5,577
<b>Agreed initial budgeted distribution in 2020/21</b>	<b>87,005</b>	<b>145,115</b>	<b>232,120</b>
In year adjustments	(150)	-	(150)
<b>Final budgeted distribution for 2020/21</b>	<b>86,855</b>	<b>145,115</b>	<b>231,970</b>
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	-	-	-
<b>Carry forward to 2021/22</b>	<b>1,433</b>	-	<b>1,433</b>

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

## 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.

Most of the £39m increase in 2020/21 for capital grants credited to Taxation & Non-specific grant income can be attributed to Salix Grant and Getting Building Fund totalling £32m.

	2019/20	2020/21
	£000	£000
<b>Credited to Services (All REFCUS related)</b>		
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	-
<b>Total Credited to Services</b>	<b>8,407</b>	<b>11,369</b>
	2019/20	2020/21
	£000	£000
<b>Credited to Taxation &amp; Non-Specific Grant Income</b>		
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	-
<b>Total Credited to Taxation &amp; Non-Specific Grant Income</b>	<b>36,386</b>	<b>75,228</b>

## 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
<b>Capital Grants Receipts in Advance</b>		
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
<b>Total Capital Grants Receipts in Advance</b>	<b>13,796</b>	<b>6,780</b>
Capital Receipts not Recognised (deposits)	88	40
<b>Total Received in Advance</b>	<b>13,884</b>	<b>6,820</b>

## 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
<b>Credited to Taxation &amp; Non-Specific Grant Income</b>		
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	-
<b>Total Credited to Taxation &amp; Non-Specific Grant Income</b>	<b>24,536</b>	<b>141,094</b>
<b>Credited to Services</b>		
<b>Children's and Education Services</b>		
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
<b>Adults and Housing</b>		
Improved Better Care Fund	15,467	17,040
Other Covid-19 Grants	-	8,946
Other Adult Social Care	2,189	2,187
<b>Public Health</b>		
Public Health Grant	26,117	27,202
Other Public Health	140	134
<b>City Development, Neighbourhoods &amp; Housing</b>		
Other City Development, Neighbourhoods & Housing	11,590	12,872
Waste PFI	2,074	2,074
Other Covid-19 Grants	-	1,026
<b>Corporate and Resources</b>		
Housing Benefit Subsidies	93,129	85,433
Other Covid-19 Grants	10,899	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
<b>Total Credited to Services</b>	<b>423,954</b>	<b>449,785</b>
<b>Total Recognised in Year</b>	<b>448,490</b>	<b>590,879</b>

## 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
<b>Adult Social Care</b>		
Other Adult Social Care	-	338
<b>City Development, Neighbourhoods &amp; Housing</b>		
City Development, Neighbourhoods & Housing	202	252
<b>Taxation &amp; Non Specific Grant Income</b>		
Section 31 Grants	11,243	-
<b>Total Receipts in Advance</b>	<b>11,445</b>	<b>590</b>

## 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
<b>Opening Capital Financing Requirement</b>	<b>560,588</b>	<b>575,632</b>
<b>Capital Investment</b>		
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	<b>118,700</b>	<b>139,052</b>
<b>Sources of Finance</b>		
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	<b>(103,656)</b>	<b>(121,812)</b>
<b>Closing Capital Financing Requirement</b>	<b>575,632</b>	<b>592,872</b>
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
<b>Increase/(Decrease) in Capital Financing Requirement</b>	<b>15,044</b>	<b>17,240</b>

## 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
<b>Total</b>	<b>5,312</b>	<b>9,499</b>

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

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

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
<b>Total</b>	<b>27,238</b>	<b>26,582</b>	<b>9,040</b>	<b>8,816</b>

## 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
<b>Total</b>	<b>8,077</b>

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

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

## 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
<b>Total</b>	<b>97,310</b>	<b>92,886</b>

## 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)
<b>Balance at 31st March 2021</b>	<b>8,852</b>	<b>5,242</b>	<b>14,094</b>

## 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 31<sup>st</sup> 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
<b>Total</b>	<b>47,457</b>	<b>4,970</b>	<b>3,389</b>	<b>9,158</b>	<b>64,975</b>

	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
<b>Balance at 31st March</b>	<b>3,515</b>	<b>4,969</b>

## 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.

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#### *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:

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

## 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 31<sup>st</sup> 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
<b>Total</b>	<b>37,493</b>	<b>26,336</b>	<b>19,928</b>	<b>12,402</b>	<b>96,159</b>

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

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

## 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 31<sup>st</sup> 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.

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#### *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:

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

## 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 31<sup>st</sup> 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
<b>Total</b>	<b>57,975</b>	<b>35,182</b>	<b>26,177</b>	<b>21,564</b>	<b>140,898</b>

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)
<b>Balance at 31st March</b>	<b>36,614</b>	<b>35,182</b>

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

### District Energy Heating & Combined Heat Power Scheme

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

The scheme involves the replacement of existing heating boilers, the use of existing

heating networks and the construction of additional heating networks in the City Centre and some outer Council estates. Leicester University are part of the scheme and their heating and electricity networks are linked into the overall network scheme.

The 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 31<sup>st</sup> March 2021 are shown in the table:

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

#### Payments

The Council will make payments each year which will be increased by inflation (based on a number of inflation measures) and can be reduced if the contractor fails to meet performance standards. Payments (substantially based on assumed levels of energy consumption) scheduled to be made under the contract at 31<sup>st</sup> March 2021 (excluding future inflation increases and the final phase which has yet to be completed) are as follows:

	<b>Payment for Services</b>	<b>Reimbursement of Capital</b>	<b>Interest</b>	<b>Lifecycle Capital Replacement</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
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
<b>Total</b>	<b>31,319</b>	<b>8,355</b>	<b>9,077</b>	<b>3,550</b>	<b>52,301</b>

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

### Liability

The liability outstanding to the contractor for capital expenditure incurred up to 31<sup>st</sup> 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)
<b>Balance at 31st March</b>	<b>8,095</b>	<b>7,809</b>

## 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	-	-
<b>Total</b>	<b>85</b>	<b>1,719,628</b>	<b>20</b>	<b>256,512</b>

## 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)	-
<b>Total Service Cost</b>	<b>70,963</b>	<b>60,772</b>
Financing and Investment Income and Expenditure		
Expected return on scheme assets	(32,415)	(28,757)
Interest cost	52,168	42,684
<b>Net Interest Cost</b>	<b>19,753</b>	<b>13,927</b>
<b>Total Post-employment Benefit charged to the (Surplus) or Deficit on the Provision of Services</b>	<b>90,716</b>	<b>74,699</b>
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)
<b>Total remeasurements recognised in the Comprehensive Income and Expenditure Statement</b>	<b>(254,639)</b>	<b>277,823</b>
<b>Total post-employment Benefit charged to the Comprehensive Income and Expenditure statement</b>	<b>(163,923)</b>	<b>352,522</b>
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)
<b>Total Movement in Reserves</b>	<b>43,501</b>	<b>24,928</b>

## 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
<b>Balance at 1st April</b>	<b>2,160,400</b>	<b>1,845,164</b>
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
<b>Balance at 31st March</b>	<b>1,845,164</b>	<b>2,440,752</b>

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

	2019/20	2020/21
	£000	£000
<b>Balance at 1st April</b>	<b>1,348,774</b>	<b>1,244,676</b>
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
<b>Balance at 31st March</b>	<b>1,244,676</b>	<b>1,537,513</b>

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

## 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
<b>Surplus/(deficit) in the scheme</b>	<b>(655,450)</b>	<b>(634,031)</b>	<b>(811,626)</b>	<b>(600,488)</b>	<b>(903,239)</b>

### 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 31<sup>st</sup> 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
<b>Total</b>	<b>100.0%</b>	

## 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 31<sup>st</sup> March 2019.

The main assumptions used by the actuary have been:

<b>Local Government Pension Scheme</b>	<b>2019/20</b>	<b>2020/21</b>
<b>Mortality assumptions:</b>		
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
<b>Benefit entitlement assumptions</b>		
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
<b>Equity</b>								
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%
<b>Debt Securities</b>								
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%
<b>Private Equity</b>								
All		57,396	57,396	5%		70,900	70,900	5%
<b>Real Estate</b>								
UK Property		93,030	93,030	7%		114,918	114,918	7%
<b>Investment Fund and Unit Trusts</b>								
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%
<b>Derivatives</b>								
Foreign Exchange	(1,582)	-	(1,582)	0%	(1,954)		(1,954)	0%
<b>Cash and Cash Equivalents</b>								
All	37,287	-	37,287	3%	46,060		46,060	3%
<b>Total</b>	<b>855,887</b>	<b>388,789</b>	<b>1,244,676</b>	<b>100%</b>	<b>1,057,254</b>	<b>480,260</b>	<b>1,537,513</b>	<b>100%</b>

## 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.

<b>Changes in assumptions at 31st March 2021</b>	<b>Approximate % increase to Defined Benefit Obligation</b>	<b>Approximate monetary amount (£000)</b>
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 £000	Impaired Value £000	Due £000	Impaired Value £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
<b>Total</b>	<b>16,912</b>	<b>8,753</b>	<b>17,949</b>	<b>8,909</b>

## 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
<b>Total</b>	<b>322,562</b>	<b>299,882</b>

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)
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>684</b>
Decrease in fair value of available for sale financial assets	0
<b>Impact on Comprehensive Income and Expenditure</b>	<b>0</b>
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
<b>Income</b>				
(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)
<b>(79,655)</b>	<b>Total Income</b>			<b>(79,887)</b>
<b>Expenditure</b>				
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	25,540
60	Debt Management Expenses			60
<b>82,915</b>	<b>Total Expenditure</b>			<b>80,201</b>
710	HRA share of Corporate & Democratic Core			710
<b>3,970</b>	<b>"HRA Comprehensive Income and Expenditure Line"</b>			<b>1,024</b>
<b>3,970</b>	<b>Net Cost of HRA Services</b>			<b>1,024</b>
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)
<b>17,430</b>	<b>(Surplus) / Deficit for the Year</b>			<b>13,207</b>

## Housing Revenue Account (HRA) Statements - Movement in Reserve

2019/20			2020/21
£000		Note	£000
17,430	(Surplus) / Deficit for the Year (from above)		13,207
<b><u>Additional items required by statute and non-statutory proper practices to be taken into account in determining the movement on the Housing Revenue Account balance</u></b>			
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	(25,540)
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)	<b>Total value of items reversed as part of determining the statutory movement on the Housing Revenue Account Balance</b>		<b>(16,139)</b>
(2,317)	<b>Net (Surplus)/Deficit on the Housing Revenue Account in the year</b>		<b>(2,932)</b>
(30,508)	Balance Brought Forward 1st April 2020		(32,825)
(32,825)	<b>Balance Carried Forward 31st March 2021</b>		<b>(35,757)</b>

# 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.

## 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)
<b>Total</b>	<b>39,738</b>	<b>42,981</b>

## 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.

## 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).

## 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)
<b>Number of Dwellings at 31st March</b>	<b>20,142</b>	<b>20,066</b>

### 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
<b>Total</b>	<b>1,022,416</b>	<b>1,083,005</b>

## Housing Revenue Account (HRA) Explanatory Notes (continued)

### 9. Vacant Possession Value of Council Dwellings

The vacant possession value of council dwellings at 31<sup>st</sup> 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
<b>Total</b>	<b>43,300</b>	<b>41,644</b>

### 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)
<b>Total</b>	<b>(19,552)</b>	<b>(6,261)</b>	<b>(4,295)</b>	<b>(10,556)</b>

## 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	12,455	23,339
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
<b>Total</b>	<b>11,662</b>	<b>14,889</b>	<b>26,551</b>	<b>12,137</b>	<b>13,403</b>	<b>25,540</b>

## 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
<b>Balance at 31st March</b>	<b>-</b>	<b>-</b>

### 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)
	<b>(3,272)</b>	<b>(1,352)</b>
Pension interest cost and expected return on assets:		
Interest on liabilities	(5,198)	(4,263)
Expected return on assets	3,229	2,872
	<b>(1,969)</b>	<b>(1,391)</b>
<b>Total Transfer to Pension Reserve</b>	<b>(5,241)</b>	<b>(2,743)</b>

# 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
<b>Income</b>						
(138,823)		(138,823)	2	(145,804)		(145,804)
	(113,496)	(113,496)			(62,374)	(62,374)
	(3,395)	(3,395)			(1,101)	(1,101)
		<b>(255,714)</b>				<b>(209,279)</b>
<b>Expenditure</b>						
Precepts and Demands:						
			3			
114,696	-	114,696		122,845		122,845
16,495	-	16,495		17,749		17,749
4,924	-	4,924		5,172		5,172
		136,115				145,766
Business Rates:						
			4			
-	27,419	27,419			56,957	56,957
-	1,097	1,097			1,139	1,139
-	81,159	81,159			55,818	55,818
-	482	482			483	483
		110,157				114,397
1,704	(7,359)	(5,655)	6	970	2,007	2,977
Bad and Doubtful Debts:						
			7			
1,366	1,879	3,245		1,600	1,406	3,006
932	723	1,655		3,901	2,627	6,528
	1,592	1,592			3,550	3,550
		<b>247,109</b>				<b>276,224</b>
1,294	(9,899)	(8,605)		6,433	60,512	66,945
(2,038)	8,139	6,101	5	(744)	(1,760)	(2,504)
<b>(744)</b>	<b>(1,760)</b>	<b>(2,504)</b>	<b>1</b>	<b>5,689</b>	<b>58,752</b>	<b>64,441</b>

# 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 Tax	Business Rates	Total	Council Tax	Business Rates	Total
	£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
<b>Fund Balance Allocations as at 31st March</b>	<b>(744)</b>	<b>(1,760)</b>	<b>(2,504)</b>	<b>5,688</b>	<b>58,753</b>	<b>64,441</b>

## 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
	<b>119,138</b>		<b>90,662</b>	<b>13,006</b>	<b>77,656</b>
					Less adjustments for collection rates and other adjustments. (1,555)
					<b>Council Tax Base 76,101</b>

## 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
<b>Total</b>	<b>136,115</b>	<b>145,766</b>

### 4. Income from Business Rates

Under the arrangements for business rates, the Council collects rates payable in the City, which are based on the rateable values multiplied by a uniform rate.

	31st March 2020 £	31st March 2021 £
<b>Non Domestic Rateable Value</b>	<b>305,198,096</b>	<b>304,089,891</b>
	<b>2019/20</b>	<b>2020/21</b>
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 31<sup>st</sup> March 2021 (£2.5m surplus at 31<sup>st</sup> 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.

	<b>City</b>	<b>Police</b>	<b>Fire</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Estimated (Surplus) – Jan 2020</b>	<b>(817)</b>	<b>(118)</b>	<b>(35)</b>	<b>(970)</b>

##### *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.

	<b>City</b>	<b>Government</b>	<b>Fire</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Estimated (Surplus) – Jan 2020</b>	<b>(1,680)</b>	<b>(307)</b>	<b>(20)</b>	<b>(2,007)</b>

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

# 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](http://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."**

#### \*Head of Internal Audit Services

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><b>Medium Term Financial Strategy</b> – 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><b>Covid-19 Pandemic</b> – like all local authorities, the Council has been affected by the pandemic in various ways, including:</p> <ul style="list-style-type: none"> <li>• Providing additional services to support the city during the pandemic.</li> <li>• Assessing the long-term impact of the pandemic on the local economy.</li> <li>• In year and future financial impacts.</li> </ul> <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><b>Medium Term Financial Strategy</b> - 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 &amp; long term impacts of COVID-19. A major exercise will take place to review the budget for 2022/23.</p>
<p><b>Covid-19 Pandemic</b> – like all local authorities, the Council has been affected by the pandemic in various ways, including:</p> <ul style="list-style-type: none"> <li>• Providing additional services to support the city during the pandemic.</li> <li>• In year and future financial impacts.</li> </ul> <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\*:**

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**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

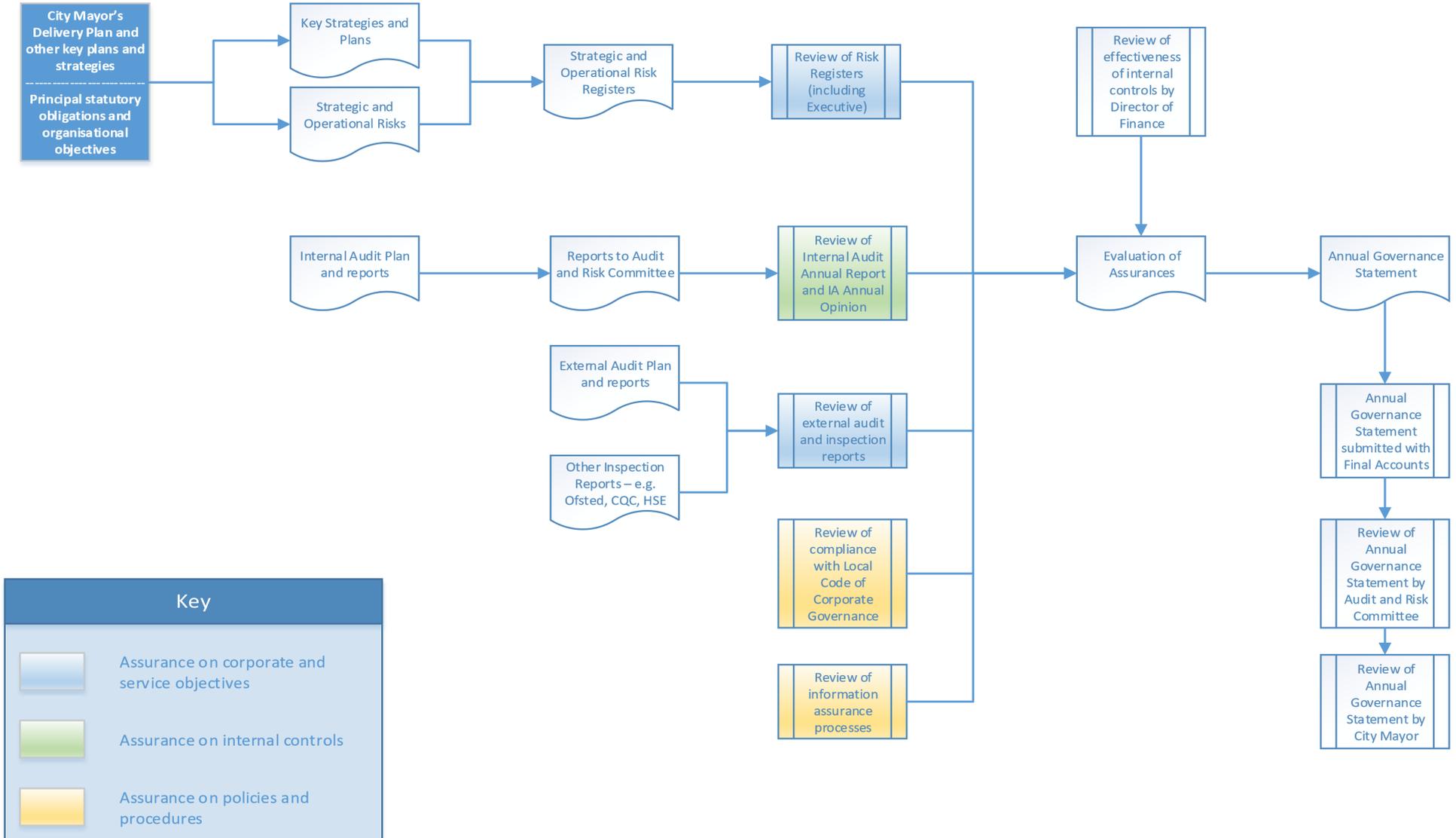
### Scrutiny and review

- 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

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



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Key	
	Assurance on corporate and service objectives
	Assurance on internal controls
	Assurance on policies and procedures

# 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

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Note 3	Accounting standards issued but not yet adopted	Note 26	Unusable Reserves
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Please ask for: Colin Sharpe  
Email: [Colin.Sharpe@leicester.gov.uk](mailto:Colin.Sharpe@leicester.gov.uk)  
Date: 17 September 2021  
Our ref: CS/L180



Grant Thornton UK LLP  
The Colmore Building  
20 Colmore Circus  
Birmingham  
B4 6AT

Dear Sirs

**Leicester City Council**  
**Financial Statements for the year ended 31 March 2021**

This representation letter is provided in connection with the audit of the financial statements of Leicester City Council for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud

- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of the net pension liability and the valuation of land and buildings. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering 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 estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Council has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a **230** going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

- a. the nature of the Council means that, notwithstanding any intention to liquidate the Council or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
- b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
- c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

### **Information Provided**

- xv. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Annual Governance Statement**

xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Narrative Report**

xxv. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

**Approval**

The approval of this letter of representation was minuted by the Council's Audit and Risk Committee at its meeting on 29 September 2021.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

**Signed on behalf of the Council**

# Audit & Risk Committee Report

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**PROCUREMENT ANNUAL REPORT 2020/21**

Lead director: **Kamal Adatia**

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## Useful information

- Ward(s) affected: **All**
- Report author: **Neil Bayliss**
- Author contact details: **Tel: 37 4021 Email: [neil.bayliss@leicester.gov.uk](mailto:neil.bayliss@leicester.gov.uk)**
- Report version number: **001**
- Date of report: **29 September 2021**

### 1. Summary

- 1.1 The Council's Contract Procedure Rules require an annual report after each financial year to the Executive and to the Audit & Risk Committee with certain information on the procurement processes undertaken in that financial year.
- 1.2 The purpose of this report is to inform the Committee of the activity of the procurement function of the council (which comprises three specialist procurement teams: Procurement Services, ICT Procurement and ASC Procurement) over the previous financial year and evidence compliance with the requirements of the Contract Procedure Rules.

### 2. Recommendations

- 2.1 The Committee is asked to note the contents of the report and make any comments to the City Barrister & Head of Standards.

### 3. Supporting information

#### Contract Procedure Rules

- 3.1 The Council approved revised Contract Procedure Rules on 19 March 2020. The updated Rules also reflect new legislation, principally the Concessions Contracts Regulations, and mitigated the risk of needing to make future changes due to Brexit.
- 3.2 The City Barrister has recently used his powers under Rule 6.2 to make a minor change to Rule 16.6 to reflect the change in management structure following the appointment of the Director of Finance to Chief Operating Officer. As the responsibility for IT now sits with the Director of Delivery, Communications and Political Governance, rule 16.6 now reads:

“Where the FEW is in relation to an ICT Contract it must also be signed by the Director of Delivery, Communications and Political Governance”.

3.3 For information, the EU/PCR Thresholds were updated in November 2019 to come into force on 1 January 2020 for the next two years:

- Social & Other Specific Services £663,540
- All Other Goods & Services £189,330
- Works and Concessions £4,733,252

The thresholds are due to be updated at the end of 2021 to take effect on 1 January 2022.

## **Brexit**

3.4 There are no significant changes to procurement rules that will impact on procurement processes/plans in the short term. The Public Contracts Regulations 2015 (PCR) remain in force and are essentially the EU Rules. The thresholds at which the rules apply remains unchanged. The updated Contract Procedure Rules were updated in March 2020 and remain applicable.

3.5 It is no longer required to advertise in the Official Journal of the European Union but it is still necessary to advertise contracts over the relevant thresholds and place notices on a UK-wide replacement site: **Find a Tender Service (FTS)** <https://www.find-tender.service.gov.uk/Search>. Where a procurement process had already been commenced with a notice in the OJEU, subsequent notices need to be placed in the OJEU and should also be placed on FTS (although this is not mandatory). Procurement systems have already been amended to take account of this.

## **Reserving Contracts below Threshold**

3.6 Whilst the law remains unchanged, the government issued a [Procurement Policy Note](#) (ref. PPN11/20) which is promoting the ability to “reserve” contracts **below** the EU/PCR threshold to local suppliers and/or SMEs/voluntary/community organisations which is enabled by the UK no longer having to comply with EU treaty principles. However, following further research, Council officers noted that whilst most contracting authorities are able to take advantage of the guidance in this PPN, there are legislative restrictions which make it unlawful for local authorities to do so, other than in relation to services contracts.

3.7 These restrictions, in the Local Government Act 1988, mean we can only reserve contracts for local suppliers if they are contracts for services (including Schedule 3 services)<sup>1</sup> and below the relevant PCR threshold, and this must be where the purpose of this is to secure social value.

3.8 The Council’s Contract Procedure Rules did not clearly allow for contracts to be reserved pursuant to this guidance and the City Barrister has therefore approved changes to the Contract Procedure Rules using his powers under Rule 6.2 to permit this (inserted text shown in red below).

<sup>1</sup> “Services” could include print and design or building maintenance services, and “schedule 3” services include, for example, social care and children’s services.

- 3.9 Rule 32 (Reserved Contracts) now reads:
- a. The Procuring Officer may Reserve a Contract with the written approval of the relevant Specialist Procurement Team Manager and, for PCR Contracts, the Head of Law.
  - b. The Procuring Officer must set out in all appropriate documentation, including the Advertisement, that the contract is Reserved; and comply with Regulations 20 or 77 of the PCR, LGA 1988 and/or PPN 11/20, if applicable.
- The following definitions have been added/amended:
- “LGA 1988”** means Local Government Act 1988.
- “PPN 11/20”** means Procurement Policy Note – Reserving Below threshold Procurements, Action Note PPN 11/20, issued by the Cabinet office December 2020.
- “Reserve”** means the reservation of a Contract for sheltered workshops, mutuals or social enterprises (or similar), VCSEs, SMEs or local suppliers. Reserved shall be construed accordingly.
- 3.10 The Council will only reserve contracts by location, SME or VCSE after consideration of the specific contract in question by the commissioning service area and procurement services of the supply market and potential impact of doing so, to consider:
- the social value (local economic benefit) that could be gained;
  - the supply market and how much competition (and therefore evidence of value for money) could be restricted – reserving a contract must not lead to a direct award to a supplier without any competition;
  - the impact of excluding any particular supplier, e.g. the incumbent;
  - process efficiency of the procurement involving less suppliers; and
  - any risk of fraud/corruption.
- 3.11 The above list will be added in the form of a checklist to the Procurement Planning Form used by Procurement Services and a similar process adopted by the ASC and ICT procurement teams. The Procurement Panel is starting to ensure this option is proactively considered. Services which may lend themselves to reserving include graphic design, some training/consultancy contracts and some repairs and maintenance services.
- 3.12 It should be noted that when reserving contracts under this guidance, the Council must apply the definitions of SME, VCSE in the guidance and/or define local by reference to the County of Leicestershire (including the City).
- 3.13 Contracts will still be advertised where this is a requirement of the Council’s Contract Procedure Rules, but the advert will state clearly who can respond and any quotation/tender from a non-qualifying organisation must be rejected.
- 3.14 This change also contributes to the Council’s commitment to “explore supply chain opportunities that can grow businesses and promote local buying and procurement” in the [Economic Recovery – First Steps Strategy](#)

### **Procurement Processes Completed**

- 3.15 During 2020/2021 the Council completed 176 procurements with a total value over the contract lifetimes of approximately £250 million. The table below shows these

split by the procurement teams and by the value banding as per the Contract Procedure Rules. The table includes contracts procured using any procurement process, including waivers/exemptions. Many additional Small contracts will have been procured by departments and not recorded centrally.

	Small	Medium	Large	PCR	Total
<b>ASC</b>		3	1	4	<b>8</b>
<b>ICT</b>	5	12	3	6	<b>26</b>
<b>Procurement Services (Works)</b>	1	11	19	6	<b>37</b>
<b>Procurement Services (Goods/Services)</b>	12	52	26	24	<b>114</b>
<b>Total</b>	<b>18</b>	<b>78</b>	<b>49</b>	<b>40</b>	<b>185</b>

3.16 Contracts awarded include:

- Demolition of St. Margaret’s Bus Station;
- Repairs/maintenance contracts for council houses, including fire protection and digital TV;
- Roofing, fire-stopping and window works to schools;
- Library self-service solution and travel management system;
- Supported living services and a dementia support service;
- 24 welfare vehicles, and a range of other fleet items, including, tippers, gulley emptiers, a gritter, road sweepers and several electric cars and vans.

**Procurement Plan for 2021/2022**

3.17 As per the Council’s Contract Procedure Rules, approved in 2020, the Procurement Plan is published on the Council’s [Open Data website](#) for all to view and updated regularly rather than being published only annually. It is also wider in scope, including contracts from £20,000 upwards and looking two years ahead where possible.

**Ongoing Impact of Covid-19**

3.18 During 2020/21, the Council’s procurement function played an important role in the response to the Covid-19 pandemic. The most significant part of this being in relation to procuring PPE to support in-house provision and act as a provider of last resort for the Council’s social care providers and other care providers and similar organisations in the city. Given the urgency of requirements and instability of the supply market, the Council had to use Exemptions to procure on a spot-purchase basis outside of normal contracts. However, we have always been alert to ensure the quality and compliance of items being purchased to ensure they are suitable for use. Procurement Services has also supported the purchase of a range of items, including further PPE, cleaning supplies, and equipment to enable social distancing in offices and other Council buildings. A lot of this has also required exemptions under the provisions of the Contract Procedure Rules.

- 3.19 The Covid-19 outbreak also had impact on many ongoing procurement processes and some that were due to be commenced. Tender return deadlines were extended, and commissioning staff diverted away from procurement to other urgent activities. We have tried to tailor our approach to each contract taking into consideration the impact on service delivery and the market's ability to respond and implement a new contract. In many cases we have carried out some form of pre-market engagement to establish this. This meant that some contracts needed to be extended to ensure continuity of service provision until new contracts can be finalised and mobilised. Other contracts needed appropriate review and contract management to allow variations and relief to suppliers.

### **New Capital Funding**

- 3.20 The national and local response to economic recovery has nevertheless presented a range of opportunities for the Council with new funding streams to support a wide range of capital projects, which often have to be got underway very quickly. The Council's procurement function is working with the City Development and Neighbourhoods department finding quick and efficient procurement options to enable delivery of these projects within very tight timescales with minimal time available for planning. This has required some use of waivers/exemptions and framework agreements, in place of full procurement processes which, in some situations, would have required unacceptably long timeframes and therefore jeopardised the delivery in line with funding requirements. Two examples of such schemes are the Salix funding for carbon reduction works to council buildings and the Green Homes Grant for energy efficiency measures to support the decarbonisation of our council houses, both which will have a significant impact on the Council's response to the climate emergency.

### **Social Value and the Living Wage**

- 3.21 The Council adopted its Social Value Charter in late 2018 following work by the Economic Development, Tourism, and Transport (EDTT) Scrutiny Commission and implementation by the Assistant Mayor (Policy Development) and the Head of Procurement. An update on the Council's approach to Social Value is planned for Overview Select Committee in Spring 2022.
- 3.22 Examples of Social Value generated through procurement in 2020/21 include the bee-friendly living roofs on bus stops; purchase of a wide range of vehicles with much improved environmental standards; employment and skills plans for construction projects. Social Value through procurement is becoming higher profile and will be the subject of work to embed further over the coming six months with increased focus, including a Social Value Gateway to review proposed procurements.
- 3.23 The Council signed up to the Living Wage Foundation's Licence Agreement to become a Living Wage Employer. This means that the Council is implementing the Living Wage into all new procurement contracts which meet the criteria agreed with the LWF. This commitment is a key element of the Social Value Charter.
- 3.24 A report was recently made to Overview Select Committee on our implementation of the real Living Wage in procurement activity which can be found [here](#).

## Waivers

3.25 The Contract Procedure Rules require the Head of Procurement to report a summary of waivers of the Rules to the Executive and Audit & Risk Committee. The tables below show an analysis of the waivers approved during the current and last financial years. This is shown by both department and a broad categorisation of the reason for the waiver.

3.26 The changes in the Contract Procedure Rules in March 2020 removed the need for waivers below £20,000 which helps to explain the significant reduction in the number of waivers which was anticipated and one of the anticipated benefits of the changes. The difference in value can be explained by high value waiver for a works repairs contract relating to the Green Homes Grant (see above) worth over £4 million.

Reason for Waiver	2019/20		2020/21	
	Qty	Value	Qty	Value
Continuity of Provision	38	£1,222,975	11	£2,014,899
Limited Supply Market	17	£949,086	9	£1,137,790
Urgency	28	£5,783,264	24	£9,611,305
Other	13	£1,017,349	1	£50,000
	<b>96</b>	<b>£8,972,674</b>	<b>45</b>	<b>£12,813,994</b>

Department	2019/20		2020/21	
	Qty	Value	Qty	Value
City Development & Neighbourhoods	65	£7,376,711	36	£11,763,678
Social Care & Education	8	£546,319	4	£708,900
Public Health	5	£423,778	0	£0
Corporate Resources & Support	18	£625,866	5	£341,416
	<b>96</b>	<b>£8,972,674</b>	<b>45</b>	<b>£12,813,994</b>

## 4. Financial, legal and other implications

### Financial implications

4.1 There are no significant financial implications arising from this report. Robust procurement procedures should however help to secure value for money and minimise fraud.

Colin Sharpe  
Deputy Director of Finance  
Ext 37 4081

### Legal implications

4.2 There are no legal implications arising directly from the report as it is just for noting.

Emma Jackman  
Head of Law (Commercial, Property & Planning)  
Ext 37 1426

#### Climate Change and Carbon Reduction implications

- 4.3 Whilst figures are not available, it is highly likely that procurement is one of the council's largest sources of carbon emissions, due to the embodied and outsourced emissions of the goods and services procured. Following the council's declaration of a climate emergency in 2019, action should be taken to reduce these emissions wherever possible.
- 4.4 The Council's Social Value Charter and sustainable procurement guidelines provide guidance on limiting environmental impacts and securing benefits from procurement activity. This guidance should continue to be applied to procurement activities to ensure that procurement decisions support the achievement of the council's climate change related targets.

Aidan Davis  
Sustainability Officer  
Ext 37 2284

#### Equalities Implications

- 4.5 The Equality Act 2010 (Act) sets out anti-discrimination law and the requirements of the public sector equality duty (PSED). The PSED requires public authorities to have due regard to the need to: eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act; advance equality of opportunity between people who share a protected characteristic and those who do not, and foster good relations between people who share a protected characteristic and those who do not.
- 4.6 To have 'due regard' means that when making decisions (and in its other day-to-day activities) the Council must consciously consider the need to: eliminate discrimination, advance equality of opportunity, and foster good relations. This includes when it plans and makes decisions about its procurement.
- 4.7 Compliance with the PSED should help public authorities ensure that the goods and services they procure are fit for purpose thus ensuring they meet the needs of their users. As such it should also be seen as an effective tool for improving economy, efficiency and effectiveness and therefore value for money.
- 4.8 The purpose of the procedure rules is to ensure that any procurement process for services, works or goods achieves best value and is transparent, open and fair making it possible for all decisions to be audited satisfactorily.

4.9 Social Value is defined through the Public Services (Social Value) Act 2012 which came into force in January 2013 and requires all public sector organisations (and their suppliers) to look beyond the financial cost of a contract and consider how the services they commission and procure might improve the economic, social and environmental well-being of an area.

4.10 Benefits can include increases in opportunities for disadvantaged people which can promote social mobility and help build stronger more resilient communities.

4.11 The Living Wage has an obvious benefit for workers in that they are in receipt of enhanced wages and potentially therefore have greater spending power and a better quality of life, with subsequent knock-on effects for their families.

Surinder Singh  
Equalities Officer  
Ext. 37 41418

**5. Background information and other papers:**

5.1 None.

**6. Summary of appendices:**

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

7.1 No.

**8. Is this a “key decision”?**

8.1 No





**Leicester City Council Audit & Risk Committee**  
**29<sup>th</sup> September 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. Internal Audit Service continues to be delivered remotely to follow corporate guidance and ensuring the safety of both staff and clients. Having operated remotely for over a year and a half, staff (both IA and client) have become more familiar with this type of working environment but equally recognising that this adds extra time in the completion of audits. Progress with the delivery of the audit plan continues; however, in some divisions progress has been slow as the start of a number of audits has been delayed. A number of contributing factors has led to the delays such as staff (both City and IA) taking much needed leave (which has accumulated over the past year) as lockdown measures have been eased. IA has also recently suffered a short term resource gap, with two staff leaving but recruitment of replacements is underway and there is also scope to utilise agency staff. Also whilst the organisation is steadily getting back to some normality, management in some of the audit areas have indicated they are still under a lot of work pressure and in one case the service area is undergoing internal organisational reviews; therefore juggling different priorities has contributed to some audits being delayed. For some grant audits, completion has been difficult as the Council are awaiting invoices/supporting information from external organisations.

As everyone moves towards a new normal, it is acknowledged that new challenges are being experienced; however delays create additional pressure for the Internal Audit Service in delivering sufficient planned audits over the remaining seven months. Internal Audit are working with the Council's client officers to help progress audits and to ensure there is adequate audit coverage by the year end to enable the HoIAS to provide his annual opinion.

### Summary of progress at 31<sup>st</sup> August 2021

9. **Appendix 1** reports on the position at 31<sup>st</sup> August 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 31<sup>st</sup> May 2021) is:

	2020/21 @31/05/21	<b>2020/21</b> <b>@31/08/21</b>	2021/22 @31/05/21	<b>2021/22</b> <b>@31/08/21</b>
<b>Outcomes</b>				
High(er) Assurance levels	13	<b>15</b>	<b>0</b>	<b>0</b>
Low(er) Assurance levels	2	<b>2</b>	<b>0</b>	<b>0</b>
Advisory	3	<b>3</b>	<b>0</b>	<b>0</b>
Grants/other certifications	22	<b>23</b>	4	<b>10</b>
HI follow ups – completed	3	<b>3</b>	<b>0</b>	<b>0</b>
<b>Audits finalised</b>	43	<b>46</b>	4	<b>10</b>
HI follow ups – in progress	5	<b>5</b>	<b>0</b>	
<b>In progress</b>	14	<b>11</b>	7	<b>29</b>
Not yet started	0	<b>0</b>	<b>41</b>	<b>29</b>
Postponed/Rescheduled/ Cancelled	23	<b>23</b>	<b>0</b>	<b>4</b>

### Resources used as at 31<sup>st</sup> August 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 31<sup>st</sup> August 2021, Leicester City Council had received 221 days of internal audit input delivered (see below table).

	@31/08/21	@31/08/21
<b>By type</b>	<b>Days</b>	<b>%</b>
Audits	<b>155</b>	<b>70%</b>
Client management	<b>66</b>	<b>30%</b>
<b>Total</b>	<b>221</b>	<b>100%</b>
<b>By position</b>		
HoIAS	<b>10</b>	<b>5%</b>
Audit Manager	<b>56</b>	<b>25%</b>
Audit Senior (incl. ICT)	<b>33</b>	<b>15%</b>
Audit Other	<b>122</b>	<b>55%</b>
<b>Total</b>	<b>221</b>	<b>100%</b>
Relating to prior years audits (*)	<b>60</b>	<b>27%</b>
Relating to audits started 2021-22	<b>161</b>	<b>73%</b>
<b>Total</b>	<b>221</b>	<b>100%</b>

(\*) 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 some update has occurred to a previously reported recommendation are shown in **bold font**. Entries remain on the list until the HoIAS 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 takes account of how management responds to implementing high importance recommendations. Responses are generally positive and there is recognition (especially with covid disruptions) that some recommendations do require more time to fully implement.
12. To summarise movements within Appendix 2 as at 7<sup>th</sup> September 2021:
- a. New – None
  - b. Ongoing/extended - GDPR; Financial Management & School Governance - LA Scheme for the Financing of Schools; Financial Management & School Governance - SEND funding (part); Social Value within Procurement; Government Procurement Card (GPC).
  - c. Closed – None

### **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](mailto:neil.jones@leics.gov.uk)

**Appendices**

- Appendix 1 - Summary of Internal Audit Service work undertaken between 31<sup>st</sup> May 2021 – 31<sup>st</sup> August 2021
- Appendix 2 - High Importance Recommendations as at 7<sup>th</sup> September 2021.



**Appendix 1: Summary of Internal Audit Progress Report as at 31st August 2021**

**Appendix 1: Leicester City Council 2021-22 Audit Plan (includes 2020-21 b/fwd) - Finalised as at 31.08.2021**

<b>Audit Plan Yr</b>	<b>Plan State</b>	<b>Client Title</b>	<b>Audit Plan Area Names</b>	<b>Audit Title</b>	<b>Assurance Level</b>
2019-20	Planned	Leicester City Council	Grant Certification	Regional Growth Fund - RGF 3	Certified
2020-21	Planned	Leicester City Council	IT & Governance	BACs & DD	Substantial Assurance
2020-21	Planned	Leicester City Council	Contract & Procurement	Contract Audit - Highways Contract	Substantial Assurance
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
2021-22	Planned	Leicester City Council	Grant Certifications	National Productivity and Investment Fund	Certified
2021-22	Planned	Leicester City Council	Grant Certifications	Leaseholder Accounts	Certified
2021-22	Planned	Leicester City Council	Grant Certifications	DfT Block Funding Capital Grant - Integrated Transport Highway Maintenance (No: 31/5036)	Certified
2021-22	Planned	Leicester City Council	Grant Certifications	DfT Block Funding Capital Grant - Highways Maintenance Challenge Fund and Pothole & Challenge Fund(No: 31/5072)	Certified
2021-22	Planned	Leicester City Council	Grant Certifications	Supporting Families (Previously referred to as Troubled Families) - Claim 1	Certified
2021-22	Planned	Leicester City Council	Grant Certifications	Adriatic Land 7 Limited Service Charges	Certified

**Leicester City Council : 2021-22 Audit Plan (includes 2020-21 b/fwds) - Status as at 31.08.2021**

<b>Audit Plan Yr</b>	<b>Plan State</b>	<b>Client Title</b>	<b>Audit Plan Area Names</b>	<b>Audit Title</b>	<b>Current Milestone</b>
2019-20	Planned	Leicester City Council	Compliance Audit	Planning Enforcement	Revised Draft
2020-21	Planned	Leicester City Council	Systems	Disabled Facilities System Review	Draft Report
2020-21	Planned	Leicester City Council	Systems	Early Years	Draft Report
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	Work in Progress
2020-21	Added to Plan	Leicester City Council	Grant Certifications	COVID-19 Bus Service Support Grant (CBSSG ) Restart - Tranche 2/3/4/5	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
2021-22	Planned	Leicester City Council	Grant Certifications	Supporting Families (Previously referred to as Troubled Families) - Claim 2	Work In Progress

2021-22	Planned	Leicester City Council	Systems & Governance	Finance Roles & Responsibility	Work In Progress
2021-22	Planned	Leicester City Council	Systems & Governance	COVID 19 - Restart Grant (Businesses)	Work In Progress

Leicester City Council : 2021-22 Audit Plan (includes 2020-21 b/fwds) - Status as at 31.08.2021

Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Audit Title	Current Milestone
2021-22	Planned	Leicester City Council	Grant Certifications	Bus Services Operators Grant (BSOG)	Work In Progress
2021-22	Planned	Leicester City Council	Grant Certifications	Green Homes Grant - Phase 1a	Work In Progress
2021-22	Planned	Leicester City Council	Grant Certifications	Disabled Facilities Capital Grant	Work In Progress
2021-22	Planned	Leicester City Council	Contract & Governance	Third Party Operators	Work In Progress
2021-22	Planned	Leicester City Council	Governance	LA involvement with Private Companies - Element 1	Work in Progress
2021-22	Planned	Leicester City Council	Governance	Contract Audit - Supply chain management	Planning
2021-22	Planned	Leicester City Council	Systems & Governance	Tax Digital	Planning
2021-22	Planned	Leicester City Council	Grant Certifications	Green Homes Grant - Phase 1b	Planning
2021-22	Planned	Leicester City Council	Significant Financial Systems	Major Financial Systems(MFS) Audit - Council Tax/NNDR	Planning
2021-22	Planned	Leicester City Council	Significant Financial Systems	Major Financial Systems(MFS) Audit - Payroll	Planning
2021-22	Planned	Leicester City Council	Systems & Governance	Residential Financial Assessment	Planning
2021-22	Added to Plan	Leicester City Council	Grant Certifications	Publishing Obligations Under the Local Government Transparency Code 2015	Planning
2021-22	Planned	Leicester City Council	Governance	Governance changes	Planning
2021-22	Planned	Leicester City Council	Schools	Management and governance of maintained schools	Planning
2021-22	Planned	Leicester City Council	Schools	Schools Financial Audits - St Mary's Fields Primary	Planning
2021-22	Planned	Leicester City Council	Schools	Schools Financial Audits - Eyres Monsell Primary School	Planning
2021-22	Planned	Leicester City Council	Governance	Contract Audit - Children Services Contract	Planning
2021-22	Planned	Leicester City Council	Governance	Contract Audit - Implementation of the new Contract Procedure Rules.	Planning
2021-22	Planned	Leicester City Council	Governance	Contract Audit - Contract arrangements during the COVID 19 period	Planning
2021-22	Planned	Leicester City Council	Contract & Governance	Taxi Contract	Planning
2021-22	Planned	Leicester City Council	IT & Information Assurances	Tracking database	Planning
2021-22	Planned	Leicester City Council	Schools	Schools Financial Audits	Planning
2021-22	Added to Plan	Leicester City Council	Systems & Governance	Procurement - Publishing Obligations under the Local Government Transparency Code.	Planning
2021-22	Planned	Leicester City Council	Grant Certifications	Supporting Families (Previously referred to as Troubled Families) 3&4	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	IT & Information Assurances	Data analytics	Not started
2021-22	Planned	Leicester City Council	IT & Information Assurances	IT Audit - Key ICT controls - standard audit	Not started
2021-22	Planned	Leicester City Council	IT & Information Assurances	IT Audits : Unit 4 - Phase 2 (Q3/Q4) - payables/receivables	Not started
2021-22	Planned	Leicester City Council	IT & Information Assurances	IT Audits : Homeworking arrangements - cyber security	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	Transforming Cities Grant (TCF1)	Not started
2021-22	Planned	Leicester City Council	Governance	Critical Incidence	Not started
2021-22	Planned	Leicester City Council	Systems	Climate change and carbon emissions	Not started
2021-22	Planned	Leicester City Council	Governance	Smoking Cessation	Not started
2021-22	Planned	Leicester City Council	Systems & Governance	Direct Payments	Not started

2021-22	Planned	Leicester City Council	Systems & Governance	Bus Lane Penalty Enforcements	Not started
2021-22	Planned	Leicester City Council	Governance	LA involvement with Private Companies - Element 2	Not started

**Leicester City Council : 2021-22 Audit Plan (includes 2020-21 b/fwds) - Status as at 31.08.2021**

Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Audit Title	Current Milestone
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	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	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
2021-22	Planned	Leicester City Council	Grant Certifications	COVID-19 Bus Service Support Grant (CBSSG ) Restart - Tranche 6/7/8	Not started
2021-22	Planned	Leicester City Council	Grant Certifications	COVID 19: Additional Dedicated Home to School & College Transport - Tranche 3/4/5/6/7	Not started

**Leicester City Council : Audit follow ups as at 06.09.2021**

Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Title	Current Milestone
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 Financing of Schools	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 31.08.2021**

Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Title	Current Milestone
2021-22	Planned	Leicester City Council	IT & Information Assurances	IT Audits - Automated Call distribution project	Cancelled
2021-22	Planned	Leicester City Council	IT & Information Assurances	IT Audits - VDI rollout	Cancelled
2021-22	Planned	Leicester City Council	Systems & Governance	Recruitment System	Postponed to 2022/23
2021-22	Planned	Leicester City Council	Governance	Procurement of Contracts - Post Brexit	Cancelled



High Importance Recommendations – Position at 7<sup>th</sup> September 2021

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<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"> <li>• absence of receipts and VAT invoices</li> <li>• lack of managers approval of new applications and review of submitted claims</li> <li>• no checks to deactivate cards after staff have left</li> <li>• no review to ensure continued business need for the cards.</li> </ul>	<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> <p><b>Awaiting further update in time for Committee</b></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"> <li>• Monitoring arrangement for Social Value (SV) Key Performance Indicators (KPIs) was not specified in the sample contracts</li> </ul>	<p><b>Action is ongoing to implement this by the revised deadline. An Invitation to Tender has been issued for a Social Value monitoring System, with tenders due back later this month (Sept 21).</b></p>	<p>July 21</p> <p><b>Extended to Dec 21</b></p>	

	<ul style="list-style-type: none"> <li>there was no evidence to confirm that contract managers were monitoring the suppliers to ensure they had delivered their commitments and fulfilled their contractual obligations with regards to SV.</li> </ul> <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 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>	<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> <p><b>Awaiting further update in time for Committee</b></p>	<p>June 20</p> <p>Dec 20</p> <p>June 21</p> <p><b>Extend to Aug 21</b></p>	
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</p>	<p><b>1. The business case for extra resourcing has been drafted by the DPO and this will be submitted to the Director of Delivery, Communications and Political Governance by</b></p>	<p>Jan 2021</p> <p>June 2021</p> <p>Sept 2021</p>	

	<p>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"> <li>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.</li> <li>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.</li> </ol>	<p><b>mid-September. Once agreed this will then be sent to the Finance Team for approval.</b></p> <ol style="list-style-type: none"> <li>2. <b>Progress is being made to complete the gap analysis work on the Information Asset Registers. Two graduates from De Montfort University were recruited in mid-August to undertake some project work on a) the information asset register and b) the information sharing agreements. The graduates have been recruited for six weeks, thereafter the DPO will take stock of any remaining tasks that are yet to be completed.</b></li> </ol>	<p><b>Extend to Dec 2021</b></p>	
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"> <li>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.</li> <li>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.</li> <li>3. Lack of robust reporting mechanisms to allow the Special Education Service (SES) team to track and trace changes to pupil</li> </ol>	<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, only one remains in progress</p> <ol style="list-style-type: none"> <li>2. <b>Clawback conditions have been drafted and passed to the Senior Accountant (Schools) to be included in the finance document for schools in Leicester. This is awaiting to be presented and agreed at the next Schools Forum (scheduled for the Autumn term) prior to it being formalised in the Scheme for Financing Schools.</b></li> </ol>	<p>Nov 19</p> <p>June 20</p> <p>Feb 21</p> <p>Jun 21</p> <p><b>Extended to Oct 21</b></p>	<ol style="list-style-type: none"> <li>1. Yes</li> <li>2. <b>Partially</b></li> <li>3. Yes</li> <li>4. Yes</li> </ol>

	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.			
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Audit/A&RC/210929/Follow-up/Appendix 2 HI Progress Report  
Last Revised 7<sup>th</sup> September 2021

## Audit & Risk Committee Workplan 2021/22

Workplan Item	Author	Frequency	Purpose
<b>July 2021</b>			
<b>Training Session - Statement of Accounts</b>			
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 Chief Operating Officer (S151)/ Chief Accountant	Annual	Committee to note
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
<b>September 2021</b>			
<b>Training Session - Annual Audit Opinion</b>			
Statement of Accounts, Annual Governance Statement & ISA260	Chief Operating Officer (S151)/ Chief Accountant	Annual	Approval
Annual Procurement Update	Head of Procurement	Annual	Committee to note
Internal Audit update report	Head of Internal Audit	Periodic	Committee to note
<b>November 2021</b>			
<b>Training - Corporate Fraud</b>			
Annual Audit Letter & VFM Opinion	Grant Thornton	Annual	Committee to note
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
Financial Update Report	Chief Accountant	Periodic	Committee to note
Annual Insurance Report	Head of Finance	Annual	Committee to note
Procurement of External Auditor for 2023/24 to 2027/28	Deputy Director of Finance	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
<b>March 2022</b>			
<b>Training - RIPA (30 min)</b>			
Annual Report - Certification of claims and returns (grants)	Grant Thornton, External Auditor	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

