Leicester
City Council

MEETING OF THE GOVERNANCE AND AUDIT COMMITTEE

DATE: **THURSDAY, 18 APRIL 2024**
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)
(Vice-Chair Vacancy)

Councillors Adatia, Cassidy, Dave, Kitterick, Surti and Whittle

Independent Member Mr Bipon Bhakri

One unallocated Labour Group place

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

for Monitoring Officer

Officer contact: Jessica Skidmore
Governance Support Officer
, Governance Services, Leicester City Council,
City Hall, 115 Charles Street, Leicester, LE1 1FZ
Tel. 0116 454 6350
Email. committees@leicester.gov.uk

Information for Members of the Public

Attending meetings and access to information
You have the right to attend formal meetings such as Full Council, committee meetings, and Scrutiny Commissions and see copies of agendas and minutes. However, on occasion, meetings may, for reasons set out in law, need to consider some items in private.

A guide to attending public meetings can be found on the Decisions, Meetings and Minutes page of the Council website.

Dates of meetings and copies of public agendas and minutes are available on the Council's website at www.cabinet.leicester.gov.uk, or by contacting us using the details below.

Making meetings accessible to all
Wheelchair access – Public meeting rooms at the City Hall are accessible to wheelchair users. Wheelchair access to City Hall is from the middle entrance door on Charles Street - press the plate on the right hand side of the door to open the door automatically.

Braille/audio tape/translation - If you require this please contact the Governance Support Officer (production times will depend upon equipment/facility availability).

Induction loops - There are induction loop facilities in City Hall meeting rooms. Please speak to the Governance Support Officer using the details below.

Filming and Recording the Meeting - The Council is committed to transparency and supports efforts to record and share reports of proceedings of public meetings through a variety of means, including social media. In accordance with government regulations and the Council's policy, persons and press attending any meeting of the Council open to the public (except Licensing Sub Committees and where the public have been formally excluded) are allowed to record and/or report all or part of that meeting. Details of the Council's policy are available at www.leicester.gov.uk or from Governance Support.

If you intend to film or make an audio recording of a meeting you are asked to notify the relevant Governance Support Officer in advance of the meeting to ensure that participants can be notified in advance and consideration given to practicalities such as allocating appropriate space in the public gallery etc.

The aim of the Regulations and of the Council's policy is to encourage public interest and engagement so in recording or reporting on proceedings members of the public are asked:

- ✓ to respect the right of others to view and hear debates without interruption;
- ✓ to ensure that the sound on any device is fully muted and intrusive lighting avoided;
- ✓ 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.

Further information
If you have any queries about any of the above or the business to be discussed, please contact committees@leicester.gov.uk
For Press Enquiries - please phone the **Communications Unit on 0116 454 4151**

PUBLIC SESSION

AGENDA

FIRE / EMERGENCY EVACUATION
If the emergency alarm sounds, you must evacuate the building immediately by the nearest available fire exit and proceed to the area outside the Ramada Encore Hotel on Charles Street as directed by Governance Services staff. Further instructions will then be given.

1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF INTEREST

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

3. CHAIR'S ANNOUNCEMENTS

4. RELATED PARTIES REPORT

Appendix A
(Pages 1 - 10)

The Director of Finance submits a report to the Governance and Audit Committee which presents the report by Grant Thornton on the Council's transactions to Haymarket Consortium Limited.

The Committee is recommended to note the report and provide any comments to the External Auditors or Monitoring Officer.

5. STATUTORY STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT 2022/23

Appendix B
(Pages 11 - 260)

The Director of Finance submits a report to the Governance and Audit Committee which presents the Statutory Statement of Accounts and Annual Governance Statement for 2022-2023.

The Governance & Audit Committee is recommended to:

- Note the auditor's ISA 260 Report (the Audit Findings Report) to those charged with Governance and the recommendations contained within it, attached at Appendix 1.
- Approve the Statement of Accounts 2022/23, Appendix 2
- Approve the Annual Governance Statement 2022/23, Appendix 2.
- Approve the Letter of Representation submitted by the Director of Finance (S151), attached at Appendix 3.

- Delegate authority to approve any minor amendments to the Annual Accounts and the Annual Governance Statement to the Director of Finance, subject to a report to the Committee at the next meeting.

6. EXTERNAL AUDIT ANNUAL REPORT 2022/23 **Appendix C**
(Pages 261 - 296)

The Director of Finance submits a report to the Governance and Audit Committee which presents the Value for Money report for 2022-2023.

The Committee is recommended to note the Finance Update report attached at appendix B, to those charged with Governance and pass any comments to the External Auditor.

7. FINANCE UPDATE **Appendix D**
(Pages 297 - 300)

The Director of Finance submits a report to the Governance and Audit Committee informing of updates including the improvements on accounts at Leicester City Council.

The Governance & Audit Committee is recommended to note the report.

8. PRIVATE SESSION

MEMBERS OF THE PUBLIC TO NOTE

Under the law, the Committee is entitled to consider certain items in private where in the circumstances the public interest in maintaining the matter exempt from publication outweighs the public interest in disclosing the information. Members of the public will be asked to leave the meeting when such items are discussed.

The Committee is recommended to consider the following reports in private on the grounds that they contain ‘exempt’ information as defined by the Local Government (Access to Information) Act 1985, as amended, and consequently that the Sub-Committee makes the following resolution:-

“that the press and public be excluded during consideration of the following reports in accordance with the provisions of Section 100A(4) of the Local Government Act 1972, as amended, because they involve the likely disclosure of 'exempt' information, as defined in the Paragraphs detailed below of Part 1 of Schedule 12A of the Act, and taking all the circumstances into account, it is considered that the public interest in maintaining the information as exempt outweighs the public interest in disclosing the information.”

Paragraph 3

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

- Future Provision of the Internal Audit Service

9. FUTURE PROVISION OF THE INTERNAL AUDIT SERVICE **Appendix E (Pages 301 - 308)**

The Director of Finance submits a report to update the Committee with the progress being made to engage a new internal audit service provider.

It is recommended that the Committee notes the report and make any comments to the Director of Finance.

10. ANY OTHER BUSINESS

Related Parties Enquiry – Audit Findings

Governance & Audit Committee

Date of meeting: 18 April 2024

Lead director/officer: Amy Oliver, Director of Finance

Useful information

- Ward(s) affected: All
- Report author: Kirsty Cowell, Head of Finance
- Author contact details: kirsty.cowell@leicester.gov.uk
- Report version number: 1

1. Summary

1.1 To present the report by Grant Thornton on the Council's transaction to Haymarket Consortium Limited, if this was a related party and if it should have been disclosed under the Councils constitution.

2. Recommended actions/decision

2.1 The Governance & Audit Committee is recommended to consider the report and pass any comments to the External Auditors or Monitoring Officer.

3. Background and options with supporting evidence

3.1 In the Statement of Accounts we are required to comply with the Code of Practice on local authority accounting this includes reporting in relation to related parties.

3.2 The code incorporates International Accounting Standards (IAS) 24 Related Party Disclosures except where adaptations to fit the public sector as detailed in the code.

3.3 As part of the Council's constitution and the Member's Code of Conduct, councillors are also required to declare their interests and ensure the register of interests is kept up to date.

4. Detailed report

4.1 Grant Thornton, the external auditors, received notification setting out concerns relating to a transaction to Haymarket Consortium Limited. The particular concern was that the transaction should have been disclosed as a related party transaction. Details are outlined in Grant Thorntons report at Appendix 1.

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

<u>5.1 Financial implications</u>

There are no financial implications arising from this report.

<u>5.2 Legal implications</u>

There are no direct legal implications arising from this report.

Kevin Carter, Head of Law, Ext 37 4197

5.3 Equalities implications

Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows: A public authority must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act. To advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; To foster good relations between persons who share a relevant protected characteristic and persons who do not share it. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. The Code specifies the principles and practices of accounting required to prepare financial statements which give a true and fair view of the financial position and transactions of a local authority. There are no direct equality implications arising from the report. Equalities Officer, Surinder Singh, Ext 37 4148

5.4 Climate Emergency implications

There are no significant climate emergency implications directly associated with this report. Aidan Davis, Sustainability Officer, Ext 37 2284

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

N/A

6. Background information and other papers:

N/A

7. Summary of appendices:

Appendix 1 – Related Parties – Consideration of Enquiry – Audit Findings, Report from Grant Thornton

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

No

9. Is this a "key decision"? If so, why?

No

Grant Thornton

Leicester City Council 2022-23 Audit

Related Parties – Consideration of Enquiry

April 2024

Related Parties – consideration of enquiry

Background

We were contacted via email by an interested party, setting out concerns relating to the transaction entered into by the Council to grant an "interest and security free loan of £600k", to Haymarket Consortium Limited (HCL). Of particular concern for the correspondent was that the transaction should have been disclosed as a related party transaction (RPT) by the City Mayor. The correspondent had already sought assurances from the Council but was not satisfied with the response received.

Our response was to consider whether:

a) this transaction should have been disclosed under accounting standards as an RPT, and,

b) to consider if the Council's constitution may have disclosure of interest requirements wider than those under accounting standards.

We also undertook to review the transaction from an audit perspective and therefore the reporting below includes consideration of additional questions that we have asked which were not part of the original inquiry.

Were the loan agreements made on commercial terms?

We have reviewed the agreements and are satisfied that the loans were given at rates in excess of prevailing bank rates at that time. This is indicative of the loans being made on commercial terms.

Consideration of IAS24 – Related Parties

The view put forward by the correspondent is that the City Mayor did not declare a related party transaction when he should have done so, on the grounds that the lead director of HCL shared another directorship with the City Mayor's daughter.

IAS 24 requires the disclosure of related party relationships, transactions and outstanding balances, including commitments. In order, to determine therefore whether disclosure is required, it is necessary to consider what defines a related party.

The definition, as set out in IAS24 is set out in the left-hand column of the table below with our consideration of how that applies in this situation on the right-hand column:

IAS 24 definition	Application
A person or a close member of that person's family is related to a reporting entity if that person:	
- **Has control or joint control of the reporting entity;**	The Council is led by a City Mayor elected directly by the people of Leicester for a fixed four-year term. The City Mayor is personally responsible for taking major decisions about many aspects of what the Council does. He can either take these decisions himself, delegate these to other Councillors on the Executive or to officers or take them collectively with Executive colleagues. On these grounds we are satisfied that the Mayor is considered to be a related party of the Council. The four active officers (company directors) associated with Haymarket Consortium Ltd per Companies House: - John Jenkins - Ellyn Phillips - Jeremy Spittle - Sandra Vernon There is one other resigned officer listed which is Christopher Knight.
- **Has significant influence over the reporting entity; or**	City Mayor considered to have significant influence.
- **Is a member of the key personal of the reporting entity or of a parent of the reporting entity**	City Mayor considered to be key personnel.

Related Parties – consideration of enquiry

An entity is related to a reporting entity if any of the following conditions applies	
- The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).	HCL and Leicester City Council are not members of the same group.
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).	HCL and Leicester City Council are not connected by means of association or joint venture.
- Both entities are joint ventures of the same third party.	N/A as noted above.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.	N/A
- The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.	N/A
- The entity is controlled or jointly controlled by a person identified above.	HCL is jointly controlled by the four directors listed above. Leicester City Council is led by the City Mayor.
- A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).	As noted above.
- The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.	N/A

Related Parties – consideration of enquiry

Consideration of IAS24 – Related Parties (continued)

From the tables we can conclude that:

- The City Mayor is a related party to the Council
- The four directors listed are a related party to HCL
- Leicester City Council is not a related party of HCL

IAS 24 goes on to say that close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

a) that person's children and spouse or domestic partner;

b) children of that person's spouse or domestic partner; and

c) dependants of that person or that person's spouse or domestic partner.

The daughter of the Mayor is therefore considered to be a close family member of the City Mayor and her dealings therefore need to be taken into account to determine if the City Mayor should be disclosing a related party.

A related party transaction would need to be disclosed if a person with control or joint control of the Council (ie the City Mayor) or a close family member (ie his daughter) has significant influence over HCL.

Significant influence, as defined by paragraph 6.10 of IAS 24 is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control of those policies. Given these definitions, neither the City Mayor or his daughter is considered to have significant influence over HCL.

Through a review of Companies House and HCL's latest records on Companies House, we have not identified a direct link between the daughter of the City Mayor and directors of HCL other than through common directorship of another organisation i.e. one Director of HCL was on the Board of Cultural Quarter (Leicester) CIC. IAS 24, paragraph 11a, notes that two entities are not related parties, simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.

Conclusion – IAS24 Related Parties

For the purposes of IAS24 we are therefore satisfied that a related party transaction does not need to be disclosed within the City Council's financial statements.

However, as well as considering the transaction from an accounting point of view, we have also considered it from a constitutional point of view, which is the topic of the next section.

Disclosable interests

Categories of disclosable pecuniary interests, according to Table 1 of the Council's constitution (which is consistent with The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 ('the regulations'), fall under the subject headings of:

- Employment, office, trade, profession or vacation
- Sponsorship
- Contracts
- Land
- Licences
- Corporate tenancies
- Securities

The subject heading which most closely applies here is "Contracts", description for which is: whereby the authority enters a contract with a "body in which the relevant person has a beneficial interest". For this to be disclosable, the relevant person (ie the City Mayor) would have to have a beneficial interest. It has been demonstrated above through consideration of relevant IAS 24 criteria, that the City Mayor would not be considered to have a beneficial interest in HCL.

It should also be noted that the requirements for DPI's cover the Mayor and any other "relevant person". Under the regulations a "relevant person" is defined as spouse/civil partner, or someone with whom the Member is living as though they were a spouse or civil partner. The Mayor's daughter would therefore not fall within this definition.

On the evidence we have seen It would therefore appear that that there is no such interest to disclose.

We do, however, need to consider Other Disclosable Interest (ODI) which are where:

> *A decision in relation to that business might reasonably be regarded as affecting the well-being or financial standing of you, or a member of your family or a person with whom you have a close association (see below), to a greater extent than it would affect the majority of Council Tax payers, ratepayers or inhabitants of the Ward or electoral area.*

The Constitution then goes on to refer to Prejudicial ODIs:

> *Where your ODI is of a nature where a member of the public, who knows the relevant facts, would reasonably think your "other disclosable interest" is so significant that it is likely to prejudice your judgement of the public interest you should disclose and withdraw from participating in respect of that matter.*

Related Parties – consideration of enquiry

Disclosable interests (continued)

Further, that:

"close association" is not defined in law but would reasonably include someone with whom you are in regular or irregular contact over a period of time, who is more than an acquaintance, and is someone whom a reasonable member of the public might think you were prepared to favour or disadvantage when discussing a matter that affects them.

In our view, "Close association" would clearly apply to the City Mayor's daughter in this instance. However, while the correspondent believes there to be an ODI in place (implicit in their correspondence), we have concluded from our work that under the terms of the City Council's constitution there is not. The loan given to HCL did not directly affect the personal well-being or financial standing of the close family member to a greater extent than it would affect the majority of Council Tax payers, ratepayers or inhabitants of the Ward or electoral area as far as we can ascertain: her being a co-director in a different company, alongside a director of a company which was a recipient of a loan is not considered to trigger such an interest.

We acknowledge there are wider principles in play and the Constitution considers them as follows:

However, you might be predetermined over a matter in a way which does not translate into a registerable or a declarable "interest" (e.g. you are a member of the Licensing Committee and have an ethical objection to the consumption of alcohol and a closed mind to the granting of any/all Liquor Licensing applications). Whilst this (i) will not constitute a DPI; (ii) may not constitute an ODI; it will (iii) constitute bias in law and breach the Nolan principles of objectivity, openness and upholding the law. You could therefore breach the Code of Conduct even though you strictly had no "interest" to declare/register.

We have considered whether a potential breach of the Nolan principles apply to our scenario, but it is difficult to see a predetermination and what interest would be declared, given the lack of related parties in question.

Conclusion – Disclosable Interests

Given the information at hand and the wording of the approved Constitution, we do not consider that the granting of a loan from Leicester City Council to Haymarket Consortium Limited would constitute a disclosable interest on the part of the City Mayor under the City's current constitution.

Summary

This is a difficult area in respect of the level of knowledge and awareness an individual could reasonably be expected to have of another individual's business relationships. It does have some parallels to the Financial Reporting Council's Ethical Standard for auditors and the concept that an objective, reasonable and informed third party may perceive certain relationships as causing a self-interest threat, when in practice they may not or are unlikely to do so.

It is therefore also relevant to note that the City Mayor's Register of Interests has in the past (2014) listed a debenture made to his daughter's business in the City Centre and therefore it can be evidenced that the Mayor is aware of their reporting obligations under the Code of Conduct (the debenture is now discharged, so it no longer appears).

Our overall conclusions, based upon the evidence, we have seen is that for the purposes of IAS24 there was no required related party disclosures needed within the City Council's financial statements and that under the wording of the approved Constitution it can be concluded that the granting of a loan from Leicester City Council to Haymarket Consortium Limited would not constitute a disclosable interest on the part of the City Mayor.

10

Appendix B

Statutory Statement of Accounts & Annual Governance Statement 2022/23

Governance & Audit Committee

Decision to be taken by: Governance & Audit Committee

Date of meeting: 18 April 2024

Lead director: Amy Oliver, Director of Finance

Useful information

- ■ Ward(s) affected: All
- ■ Report author: Kirsty Cowell
- ■ Author contact details: Kirsty.Cowell@Leicester.gov.uk
- ■ Report version number: 1

1. Summary

1.1. To seek the approval of the Committee for Council's Annual Governance Statement & Annual Accounts 2022/23.

1.2 To provide the Committee with an update from the External Auditor, which details their audit work and any recommendations.

2. Recommended actions/decision

2.1 The Governance & Audit Committee is recommended to:

- Note the auditor's ISA 260 Report (the Audit Findings Report) to those charged with Governance and the recommendations contained within it, attached at Appendix 1.
- Approve the Statement of Accounts 2022/23, Appendix 2
- Approve the Annual Governance Statement 2022/23, Appendix 2.
- Approve the Letter of Representation submitted by the Director of Finance (S151), attached at Appendix 3.
- Delegate authority to approve any minor amendments to the Annual Accounts and the Annual Governance Statement to the Director of Finance, subject to a report to the Committee at the next meeting.

3. Background

3.1 The Accounts & Audit (England) Regulations 2015 require that the Council presents its audited Statement of Accounts along with its Annual Governance statement for approval annually by the 31 July. This is delegated to the Governance & Audit Committee by Council. For the 2022/23 accounts, this deadline was extended to the 30 September due to issues being experienced in the local authority audit sector. This extended deadline will continue until the 2027/28 accounts are completed.

3.2 The draft (unaudited) 2022/23 accounts were considered by the Governance & Audit Committee on the 19 July 2023.

3.3 A further progress update on the external audit have been provided to the Committee on 22 November 2023. The update has included the main items that have caused the delay in issuing the external audit opinion for the 2022/23 Statement of Accounts.

4. Statement of Accounts

Update on the progress of the external audit for 2022/23

4.1 The statutory accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK. Separate management accounts are presented to the Executive and to the Overview Select Committee, which set out the revenue and capital outturn for the authority. The financial position of the authority is presented in a different way in the Statement of Accounts. The outturn reports focus on the in-year financial performance in a format consistent with the Council's budgets, while the Statement of Accounts shows the in-year performance in a standard format adopted by all local authorities, including a balance sheet showing the financial position as at 31st March 2023.

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 As previously reported, the Committee should note that the national deadline of 30th September 2023 for the publication of 2022/23 audited accounts has not been met. Nationally, only 1% of opinions had been issued at that time, rising very slightly to 10% at the end of December. Further details of accounts and audit progress nationally can be found in the latest PSAA Audit Contract Monitoring Report Data Pack at 2023-AQMR-published-final.pdf (psaa.co.uk)

4.4 The delays in completion of the audit reflect the technical accounting, resourcing and audit challenges across the sector. It is important to note there is no financial penalty incurred by the Council or the auditors for not meeting the deadline.

4.5 During the external audit a number of adjustments have been identified and reflected in the attached version to the financial statements attached at Appendix 2, and identified in the audit findings report at Appendix 1. It is important to note that none of these amendments have resulted in a change to the money the Council has available to fund services.

4.6 There are recommendations in the report for improvement in our closedown process. A report is elsewhere on the agenda identifying relevant changes and improvements.

4.7 Key changes made in the statements are identified below:

- Correction of asset valuations, a number of corrections have been made.
- Correction of a misclassification of a debtor as Other Entities & individuals instead of NHS bodies.
- During the audit period updated pension fund valuation information was received, which affected the Comprehensive Income and Expenditure Statement and the Balance Sheet.

Annual Governance Statement

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

4.9 This is an important statement that should assure the people of Leicester that the Council operated in accordance with eh law and has due regard to proper standards of behaviour and that it safeguards the public purse.

4.10 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’.

Letter of Representation

4.11 The letter of representation is a letter to the external auditors signed by the Director of Finance (s.151 officer) and approved by the Governance & Audit Committee.

4.12 The letter 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.

ISA 260 Report to those charged with Governance

4.13 The External Auditor’s ISA 260 Report (the Audit Findings Report) presents the observations from the audit work undertaken that are significant to the responsibility of those charged with governance to oversee the financial reporting process. ISA is the International Standard on Auditing (UK). The report can be found at Appendix 1.

4.14 It is an important report and details the conclusions of the external audit and makes recommendations. Management responses to the recommendations are contained within the action plan at appendix D to the report itself.

4.15 Members may recall that the interim draft audit findings were reported to the Committee on 22 November 2023.

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

5.1 Financial implications

The financial implications are contained in the report.

5.2 Legal implications

There are no direct legal implications arising from this report.

Kevin Carter, Head of Law, Ext 37 4197

5.3 Equalities implications

There are no direct equalities implications arising from the report. Good corporate governance underpins confidence in public services and should be transparent to all stakeholders. Corporate governance is about the systems, processes, and values by which the Council operates and by which it engages with, and is held accountable to, our communities and stakeholders. Ensuring openness and comprehensive stakeholder engagement is important in effective corporate governance. Equalities Officer, Surinder Singh, Ext 37 4148

5.4 Climate Emergency implications

There are no significant climate emergency implications directly associated directly with this report. Aidan Davis, Sustainability Officer, Ext 37 2284

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

N/A

6. Background information and other papers:

- Revenue Budget Monitoring Outturn 2022/23 presented to Overview Select Committee on 13 July 2023
- Capital Budget Monitoring Outturn 2022/23 presented to Overview Select Committee on 13 July 2023
- Draft Statutory Statements of Accounts and Annual Governance Statement 2022/23 presented to Governance & Audit Committee on 19 July 2023
- Finance Update and 2022/23 External Audit Progress report presented to Governance & Audit Committee on 22 November 2023

7. Summary of appendices:

Appendix 1 – Grant Thornton – ISA260 Audit Findings for Leicester City Council

Appendix 2 – Annual Statement of Accounts & Annual Governance Statement 2022/23

Appendix 3 – Letter of representation

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

No

9. Is this a "key decision"? If so, why?

No

The Audit Findings for Leicester City Council

Year ended 31 March 2023

Contents

Your key Grant Thornton team members are:

Grant Patterson
Key Audit Partner
E grant.b.patterson@uk.gt.com

Nicola Coombe
Director
E nicola.coombe@uk.gt.com

William Howard
Manager
E william.j.howard@uk.gt.com

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.

This Audit Findings 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 will be discussed with management and the Governance and Audit Committee.

Grant Patterson

Name: Grant Patterson
For Grant Thornton UK LLP
Date: 27 March 2024

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 2023 for the attention of those charged with governance.

Financial Statements	
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.	Our audit work was undertaken via a hybrid approach of remote and on site working from July to date. Our findings are summarised on pages 3 to 31. Audit adjustments made to the financial statements are detailed in Appendix D. The impact of these adjustments on the statement of financial position is £27.8m, however due to the requirements of local government accounting there is no impact on the General Fund. There are also misstatements we have identified from our work which have a net impact on the comprehensive income and expenditure statement of £6.3m. The Council's management are minded not to amend the accounts for on the basis that they are not material quantitatively or qualitatively. The Governance and Audit Committee, in their role as those charged with governance, is asked to confirm their agreement with management's proposal. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C. In our previous Audit Findings Report, we noted that there had been delays to the completion of the audit with queries that were still outstanding, most notably in respect of Property, Plant and Equipment (PP&E). This work has now been completed, however we have been reporting issues in the valuation process since 2019/20, recommending each year that the Council improve in this area and it is disappointing to have such findings recur. This was due to several factors, but particularly a change in personnel, coupled with a lack of documentation, has led to the valuations team redoing an element of the valuation work, as the previous work could not be supported. Additionally, the identification of a number of errors in our sampling, has led to additional work, and in some cases, extended testing in the areas of valuation of council dwellings, grants, debtors, additions, expenditure completeness, FTE data and journals.
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.	The Council was subject to a cyberattack on 7 March 2024. The audit was substantially complete at this date, and we are not relying on any further information from the Council's IT systems to provide us with assurance that the financial statements are not materially misstated; therefore, we have assessed there to be no impact upon our ability to conclude the 2022/23 audit. However, we will be undertaking detailed work alongside our IT colleagues to understand the impact (if any) of the cyberattack on the audit of the Council's 2023/24 financial statements. A summary of work outstanding is set out on page 6, with further detail set out in the coming pages. To date there are no matters of which we are aware that would require modification of our audit opinion [Appendix H]. 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 financial statements audit report opinion will be unmodified. We have not been able to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. A further explanation of the significant weakness we have identified in the Council's arrangements is detailed on page 32 of this report.

1. Headlines

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 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 completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified a significant weakness in the Council's arrangements for financial sustainability and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our findings are set out in the value for money arrangements section of this report (Section 3) and will be reflected within our audit opinion.
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 will be unable to certify completion of our audit until the following pieces of work are complete: • we have received one objection in relation to the 2022/23 financial statements, in relation to Selective Licensing, the work for which is currently underway. While, not an objection, we received queries from an interested party pertaining to related party disclosures, which we have considered as part of our audit procedures. Our findings in respect of this matter are presented in an additional Related Parties enquiry report, alongside this report.
Significant matters	As noted on page 3 we have continued to encounter significant difficulties in our audit of the Council's PP&E valuations, specifically its other land and buildings, which are valued by the Council's internal valuation team, as detailed on pages 14 and 15 of our report. As a result of this, as well as to reflect time spent on additional testing to gain appropriate assurance following fails identified in our sample testing, we will be raising a fee variation. This is set out in further detail at Appendix E.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

The level of audit work required has increased significantly in the last few years reflecting the raised bar of audit quality standards and we recognise that this has impacts on the level of questions and queries raised, as well as the quantum and robustness of evidence expected. While there are outstanding issues yet to resolve, we would like to acknowledge the support of the Council in working with us thus far.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

The Council is historically risk averse in this way (it does not have investment properties for instance), and we have not identified any areas of concern at the Council from the work done to date. However, as noted later in this report, financial sustainability is becoming ever more challenging for the Council. In seeking to identify alternative methods of balancing the books in the future in the face of high costs and high demand, the Mayor and Council need to be alert to the risk that decisions could be made, which may benefit in the short-term but have longer term disadvantageous implications i.e. on the Council's minimum revenue provision for example. The Mayor and members will therefore need to ensure their arrangements continue to support making decisions, which are informed, and affordable in the longer term.

1. Headlines

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

- receipt of the Council's consideration of post balance sheet events and any updates to the Annual Governance Statement (for issues identified up to the date of signing, that were pertinent to the financial year being audited)
- updating our post balance sheet events review, to the date of signing the opinion, including consideration of any updates to the Council's disclosed contingent liabilities and whether any additions to the Council's provisions balance is required (based on outcome of any legal cases for instance)
- obtaining and reviewing the management letter of representation

22

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

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 and will be discussed with the Governance and Audit Committee.

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; and substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

The work reported on aligns with the audit plan, as communicated to you on 27 September 2023.

Conclusion

We have now completed the majority of our audit work on your financial statements, though as noted on the previous page there are still several matters that need to be resolved. If these are resolved satisfactorily we anticipate issuing an unqualified audit opinion, as detailed in Appendix I. We will update the Committee verbally of progress against these matters at the meeting on 18 April 2024.

Acknowledgements and summary findings

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

As highlighted on pages 3 and 4, during the course of the audit both your finance team and our audit team faced significant challenges, such as:

- Lack of evidence to support the valuations of other land and buildings for the obsolescence factor applied
- Error identified in capital debtors leading to additional testing
- Error identified in receipts in advance with an offsetting error in debtors leading to additional testing
- Errors identified in the treatment of capital additions leading to further testing
- Consideration of errors below the Council's accrual de minimis level in its agency costs expenditure as well as in its debtors balance
- Consideration of expenditure incurred post year end that should have been accounted for in the 2022/23 financial year but wasn't, leading to additional testing
- A starting employee at the Council was input incorrectly into the payroll system for April. This was corrected in the following month, but as we rely on this data being accurate for our payroll testing, we extended our sampling of starters to gain assurance that this error was not pervasive
- Evidence was provided to us as part of our journals testing indicating that a senior officer was posting to the ledger by proxy (ie asking someone else to post something they themselves had prepared). This led to additional audit procedures being undertaken.
- We identified in our testing of council dwellings that a 2-bedroomed property had been misclassified into a beacon for a 6-bedroom property. We extended our sampling to gain assurance that this error was not pervasive.
- We identified in our testing of the valuation of council dwellings that, as last year, for timing reasons, the valuations are performed using the most recent information available which is prior to the year end. We asked the Council to revisit the valuations taking into account the updated information as at the year end, which showed that the valuation would move materially. This led to additional audit procedures being undertaken.
- Errors identified in the treatment of grant income leading to further testing.

These matters have resulted in us incurring additional costs, as summarised in Appendix E to gain sufficient and appropriate audit assurance in respect of our auditor's opinion on the financial statements.

2. Financial Statements

24

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 on 27 September 2023.

We set out in this table our determination of materiality for Leicester City Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	16,400,000	Benchmarked to 1.4% of the Council's gross expenditure. We have determined this to be the level of misstatement which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Performance materiality	10,660,000	This drives our sample sizes. It is based on 65% of the headline materiality. This is a reduction from the default of 75% to reflect the level of errors identified in the previous year.
Trivial matters	820,000	At 5% of headline materiality, this is the value above which we will report misstatements to the Governance and Audit Committee, as those charged with governance.
Materiality for senior officer remuneration	25,737	We have applied our headline materiality % of 1.4% to the total senior officer remuneration value of £1.8m, as this disclosure is particularly sensitive and of interest to the reader.

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
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, and 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.	We • evaluated the design and implementation of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • reviewed and tested items identified as part of transactional testing to ensure they have been appropriately charged to either the General Fund or the Housing Revenue Account (HRA) as appropriate **Findings** <u>Journals authorisation process</u> We reported to you in our audit plan and at prior audits that there continues to be a lack of an established approval process for journals which places heavy reliance on the expectation for the Council's day-to-day activities to identify and correct any improper postings. The Council is aware of this, and officers perform retrospective review of a sample of journals posted. We have reviewed documentation evidencing this review and are satisfied that this in place. Nevertheless, this represents a control deficiency which the Council is willing to tolerate but which we took consideration of in our approach by increasing the number of journals selected for review. We identified no instances of management override from this review. However, this control deficiency also impacts our findings in respect of journal inquiries overleaf. See page 10 for more detail. <u>Unit 4: Segregation of duties</u> As in prior year, the review performed by our IT audit colleagues identified four unique users of the Unit 4 application, who hold both administrative access and financial responsibilities to the Unit-4 application via 'AG-SYSTEM' role. This poses a conflict in terms of Segregation of Duties (SOD), as these users have the ability to perform actions that could potentially compromise financial data and violate internal controls. This findings has been reported to the Council in previous years and the risk accepted on the grounds that this access is required for the smooth and effective functioning of the Council's processes and procedures. Nevertheless, this represents a control deficiency. We have mitigated against this deficiency by analysing the journals posted by these individuals and selecting those that appeared unusual for further testing. From the work performed, we identified no instances of management override.

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
Management override of controls (continued)	Consideration of General Fund and HRA We are satisfied that we have not identified any breaches of the HRA ringfence from the work performed. Journal inquiries Evidence in support of one or the journals tested, demonstrated that a senior officer (which we defined as being Chief Accountant and above) had posted to the ledger by proxy (ie by asking another officer to post something on their behalf, something that they themselves had prepared). We would usually not expect senior officers to be posting to this ledger and therefore consider this to be an override of control. In our November 2023 report we stated that we had extended our inquiries and identified a further 7 officers who confirmed they had posted on behalf of someone else. This has subsequently been reduced to 6 following clarification from an individual that they hadn't. We identified 34 journals that officers identified as being posted on behalf of a senior officer. The total impact of these journals is approximately £1.48 billion; however we noted that the majority relate to year end Collection fund postings which do include large balances in line with auditor expectations. We have reviewed the journals in question to ensure they are valid and represent appropriate business activity. Given that the Council has no automated authorisation process, this raises particular concerns, as it means that officers are posting journals prepared for them by more senior officers, who may then be responsible for the retrospective review of said journal. This has the potential to render the retrospective review ineffective, if the reviewer is reviewing their own work. We have raised a recommendation in the action plan for the Council to consider in response to this finding. **Conclusion** We have concluded our work in respect of this risk and have no further findings to report. We are satisfied that we have obtained sufficient assurance.

26

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Presumed risk of fraud in revenue recognition ISA (UK) 240	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of Leicester City Council, (fees, charges and other service income, interest and investment income, income from council tax, income from non-domestic rates, housing rents and government grants and contributions), we reported to you in our audit plan that we had rebutted the presumed risk of material misstatement due to the improper recognition of revenue, because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical frameworks of public sector bodies, including Leicester City Council, mean that all forms of fraud are seen as unacceptable. Therefore, we did not consider this to be a significant risk for the Council. We revisited this assessment during the course of our work and did not change our assessment. Notwithstanding that we have rebutted this risk, we have still undertaken a significant level of work on the Council's revenue streams, as they are material. We: • evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code • updated our understanding of the Council's business processes associated with accounting for income • agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. • conducted substantive analytical procedures in relation to income for national non-domestic rates and council tax • sample tested grants income to supporting information and subsequent receipt, considering accounting treatment where appropriate. Findings Our findings below are not in relation to our work on the risk of fraud in revenue recognition, but are a response to the other work we have set out above, given the material revenue streams in place at the Council. <u>Debtors</u> In our testing of the Council's debtors balance we identified an amount of £428k which had been posted for capital financing purposes but represented an internal debtor and therefore should not have been included in the Council's financial statements. This means that the Council's debtors balance is overstated by £428k. We isolated this error to capital debtors and selected a further sample to identify if the error is more widespread. We identified no further errors and are satisfied therefore that the overstatement above is isolated. Because of its size (it is considered trivial) we are not reporting it as an unadjusted misstatement but note it here for completeness so that those charged with governance are aware of the additional work undertaken to support this conclusion.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Presumed risk of fraud in revenue recognition ISA (UK) 240 (continued)	<u>Debtors (continued)</u> We have however noted as part of our follow up review, that management have not accrued for an invoice raised at the year-end, due to the de minimis policy of not accruing for any transactions below £1k. We have gained assurance that the invoices raised under £1k received in March to April 2023 would not pose a risk of material misstatement if they were all not accrued for, due to the size of the population in question. We are therefore satisfied that this provides us with assurance that management's assessment that this policy would not materially impact the accounts is appropriate. However, the last time management formally undertook such an assessment was in 2016/17. We recommend that this assessment is done on an annual basis to ensure that the conclusion that the accounts would not be materially misstated as a result of this policy, remains the case. <u>Debtors and receipts in advance</u> In our testing of the Council's debtors balance we identified an amount of £2.9m relating to a leasehold annual service charge for 2023/24. As this relates to 2023/24 it should not have been accounted for in the Council's financial statements, meaning that both the debtors balance and receipts in advance balance are overstated by £2.9m. As both are overstated, there is a net nil impact on the balance sheet. We have conducted additional testing on transactions that appear similar in nature to identify if this error is more widespread. No further issues were identified from the additional work performed. This is reported as a disclosure misstatement In Appendix D. <u>Grants income</u> In gathering evidence in support of sample testing of grants income, management advised that a double counting error had been identified relating to two of our sample items. In their investigations a third such instance of double counting was identified. We are satisfied that the error is isolated to these three cases such that income from grants is overstated by £1.419m with an offsetting understatement in expenditure. This is reported to you in Appendix D as a misclassification. We have raised a recommendation for the Council to add checking processes to avoid such double counting. <u>Fees, charges and other service income</u> In our initial testing we identified an invoice for £6.6k which related to 2021/22 but had been recognised as income in 2022/23. When extrapolated across the population this led to an amount greater than our tolerable threshold and therefore our testing was extended. We identified no further errors but are reporting an extrapolated uncertainty of £3.087m. This means that if we assume that this error is representative of the population, when it is projected, there is a risk that fees, charges and other service income is overstated by £3.087m. This is reported in Appendix D as an unadjusted misstatement in 2022/23 but will not impact upon resources available to the Council. **Conclusion** As noted above, there are errors that have been identified in our testing of revenue, though none of the errors identified are considered to be indicative of fraud, which would require our response to the presumed risk of fraud in revenue recognition to be revisited.

2. Financial Statements: Significant risks

29

Risks identified in our Audit Plan	Commentary
Risk of fraud related to expenditure recognition Public Audit Forum (PAF) Practice Note 10	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition. Having considered the nature of the expenditure streams of Leicester City Council, and on the same basis as that set out above for revenue, we reported in our audit plan that we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition. We have revisited this assessment during our work and have not amended our conclusion. Notwithstanding that we have rebutted this risk, we have still undertaken a significant level of work on the Council's expenditure streams, as they are material. We: Expenditure • updated our understanding of the Council's business processes associated with accounting for expenditure • agreed, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence We also designed tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year. Conclusion We have not identified any findings in relation to the risk of fraud related to expenditure recognition. However, we have reported our findings pertaining to our testing of expenditure on page 18.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of land and buildings

The Council revalues its low value land and buildings on a rolling, five-yearly basis, with high value assets annually valued.

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.

Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.

Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets.

For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset.

We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

We:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation 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 valuation was carried out to ensure that the requirements of the Code are met
- challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding
- engaged our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end.

Findings

<u>Assets valued at depreciated replacement cost</u>

As noted in our audit plan and above, our approach to assessing the reasonableness of management's valuation of assets includes an evaluation of the assumptions applied to the calculation of the estimate. One such assumption applied is the obsolescence factor, (to recognise that an asset loses value over time). We queried how these assumptions had been derived and management were unable to provide supporting information. This is because the valuer responsible for valuing the assets had left the Council subsequent to providing the valuation, and the rationale applied was not documented. The valuations team have subsequently revisited the valuations for the sample of assets we selected for testing and have determined a revised value of those assets which was £14.7m less than the previous valuation. Management's view was that the the initial valuation was not incorrect because valuation is subjective, and it is reasonable that two valuers could review the same asset and derive a different valuation.

We asked the Council to document its overall conclusion and rationale as to why, or why not, this difference is within professionally accepted ranges in which different valuers could reasonably reach difference conclusions. We have reviewed the revised valuations and after performing our own analysis, we are satisfied that the adjustments proposed are within this range outlined by RICS. Given that the reduced valuation is based on a sample of 15 assets only, management have assessed the implications of this on the remaining 140 assets in the population. Based on the revised valuations, we have determined an estimation uncertainty of approximately £7.9m by considering how the valuation of the remaining assets might change if they were subject to a similar revision. We are satisfied that this is not material and is in line with the range outlined by RICS. The Council has determined not to revalue all remaining assets in the category on the basis that it is satisfied the original valuation is not materially incorrect. It will however adjust for the 15 assets that have been revalued as these are factual differences; however, it is worth noting that there have been further adjustments to these valuations identified through the course of our audit work. We identified errors of £10.8m in total, and the Other Land & Buildings (OLB) and Surplus asset valuation amendments have been reported as an adjusted misstatement in Appendix D.

As the initial valuation provided to us was not supported by appropriate audit evidence it has led to the need for additional audit work and additional work by officers. We have raised recommendations in this regard for a number of years, specifically highlighting the need for assumptions and judgements applied to be clearly documented at the time they are made. We therefore continue to roll forward this recommendation in Appendix C.

Other findings from the work done to date are noted below:

<u>Note 15 - Valuation timings note</u>

We have identified a misstatement in the valuation timings note due to the inclusion of the gross book value of highways infrastructure. This inclusion renders the note inconsistent with the PP&E note, as management has opted not to include Highways Infrastructure therein. This is considered to be a disclosure amendment only and will be adjusted in the financial statements.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan | **Commentary**

Continued

Tests of accounting of revaluation

When an asset's valuation decreases year on year, Code requirements are for any amounts pertaining to that asset in the revaluation reserve to be taken account out first and if that balance is extinguished to then take differences to the CIES. We identified a number of assets in the fixed asset register where this approach had not been applied. The impact is that charges to the revaluation reserve are understated by £1.037m. There is a further example of an asset which has been depreciated by £1.025m when we believe it should have been treated as a downwards revaluation.

Capital expenditure not adding value

The Council has a policy to recognise capital expenditure in year even though it is not considered to add value to the asset. The asset is then revalued downwards to offset the value of the capital expenditure incurred. Management reviewed all of the capital expenditure in the year that has been revalued to nil and provided their judgements for recognising as capital, and why the expenditure was deemed to not add to the current value of the associated assets. One error was identified as a result of this exercise: expenditure of £1.036m relating to Pioneer Park – Levelling Up, was inappropriately revalued to nil, when it should have been recognised as capital enhancing expenditure as it relates to the construction of a new workspace. The assets to which the expenditure relates have been revalued in year therefore no impact on the PPE net book value and this is a classification adjustment of £889k between revaluation charged to the CIES and revaluation reserve. The Council has elected to adjust its financial statements in this regard.

Valuation of land at travellers' sites

The valuer has applied a nil value in respect of the land component of these sites, which has not been updated in the Council's fixed asset register, on which the financial statements are based. The value of the land of these assets is £1.164m, which means that the financial statements are overstated. The Council has elected to adjust its financial statements in this regard.

Infrastructure depreciation

As noted above the Council's PP&E notes are informed by the Fixed Asset Register which is a spreadsheet driven by formulae. We identified an error in the amount of depreciation charges to highways infrastructure which has arisen due to a hard coded deduction of £2.6m in the depreciation formula for each of the 5 highway infrastructure assets in the register, (ie £12.9m in total), which relates to the prior year and has been included this year in error.

Additions

In our additions testing, we identified an error whereby an automated Goods Received Not Invoiced (GRNI) accrual was raised in error because the goods were marked as goods receipted, when they had not been. We extended our testing and identified three additional errors of this type, with the four errors totalling £712k in total. We have determined that the projected misstatement across the relevant population of this error is £3.543m, ie that the PP&E balance is potentially £3.543m overstated. We are reported this as an unadjusted misstatement in Appendix D. We have also raised a control recommendation for the GRNI process to be reviewed, so that such errors are avoided.

Assets valued at existing use value

We selected 20 assets to test on a judgemental basis and identified errors of £12,977k. The total value of OLB and Surplus asset valuation amendments has been reported as an adjusted misstatement in Appendix D.

We selected a sample of assets to review with year-on-year movements in line with expectations. We identified errors of £147k from a total valuation tested of £21.3m. If we assume the error rate to be indicative of the population as a whole this would suggest that the value of existing use value assets is understated by £1.310m. We have reported this as an unadjusted misstatement in Appendix D.

Conclusion

We have concluded our work in this area and have no further findings to report.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of Council Dwellings

The Council contracts an expert to provide annual valuations of council dwellings based on guidance issued by the Ministry of Housing, Communicates and Local Government (now Department for Levelling Up, Housing and Communities). They are valued using a beacon approach, based on existing use value discounted by the relevant social housing factor for Leicester. Dwellings are divided into asset groups (a collection of property with common characteristics) and further divided into archetype groups based on uniting characterises material to their valuation, such as numbers of bedrooms.

A sample property, the "beacon" is selected which is considered to be representative of the archetype group and a detailed inspection carried out. The valuation of this asset is then applied to all assets within its archetype.

The key inputs into the valuation are the social housing factor, consideration of market movements and the determination of the beacons.

We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

We

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation 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 valuation was carried out to ensure that the requirements of the Code are met
- challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding
- engaged our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end.

Findings

<u>Beacon application</u>

We identified in our testing of the application of beacons that a 2 bedroomed house had been categorised incorrectly in a beacon for houses with 6 or more bedrooms. We doubled the size of our testing population and found no further errors. We are therefore satisfied that this is an isolated error. There is no impact on the valuation of Council Dwellings as the value assigned to the beacon was materially appropriate.

<u>Indexation</u>

Dwellings not subject to formal revaluation in year are indexed by the valuer to ensure the carrying value is not materially different from the current value at year end. We challenged management whether the indexation was based on an appropriate indices as the valuer's workings showed that the land registry data used in indexing the assets was partially estimated, due to delays in Land registry obtaining house prices sales for March. The valuers have revisited their work using the more recently available data for March and have concluded that the valuation is overstated by £16.7m, which will be adjusted in the financial statements.

This is a similar finding to prior year, and we have followed up the recommendation made then at Appendix C.

Conclusion

We have concluded our work in this area and have no further findings to report.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of pension fund net liability/surplus

The Council's pension fund net liability/surplus, as reflected in its balance sheet represents a significant estimate in the financial statements, despite its value in the unaudited accounts this year as £nil.

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).

However, for the first time since IFRS have been adopted the council has had to consider the potential impact of IFRIC 14. Because of this we have assessed the recognition and valuation of the pension asset/liability as a significant risk, due to the sensitivity of the estimate to changes in key assumptions.

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. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.

Commentary

We:

- updated our understanding of the processes and controls put in place by management to ensure that the pension fund balance is not materially misstated and evaluate the design of the associated controls
- evaluated the instructions issued by management to their management experts (the 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 pension fund valuation
- assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liabilities
- tested the consistency of the pension fund balance and disclosures in the notes to the core financial statements with the actuarial reports 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

Findings

Actuarial report

The Council obtained a revised IAS19 report from its actuary which updates for the actual return on assets as at the balance sheet date rather than an estimate which featured in the original valuation. There was no change to the value of the liability (£nil), the interest on pension liability (£16.347m) but there will be amendments made to adjust for other experience adjustments charged to the CIES (which has been amended from £54.379m to £53.262m) and return on assets (which has been amended from £32.780m to £69.449m).

IFRIC 14

IFRIC 14 addresses the extent to which an IAS19 surplus can be recognised on the balance sheet. The Council's original actuarial valuation showed that there is a pension asset as at 31 March 2023 of £79m. A revised valuation was provided which reduced this to £38m but the Council have not recognised this in the financial statements, instead including a £nil balance (ie neither a pension asset or a pension liability). This is because IFRIC 14 requires consideration of the extent to which any existing surplus will give rise to a reduction in future contributions to the plan or refunds from the plan.

The economic benefit available as a reduction in future contributions cannot be negative. Therefore, where IAS19 future service costs are less than future service contributions the figure is floored at £0. This is the conclusion that management has reached as estimated minimum funding contributions will exceed the service cost, and therefore it is considered that it is not appropriate to account for the surplus as an asset.

Where an asset ceiling is applied, the Code requires the effect of the asset ceiling to be disclosed. The Council has added appropriate commentary to Note 5 Estimation Uncertainty in this regard.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Continued	Pension fund auditor We seek to obtain assurances from the auditor of the Leicestershire County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund's financial statements. The pension fund auditor noted an overstatement of assets due to the actuary's use of an estimated rate of return to calculate the fund's assets. The Council's share of this is £4,877k. They also noted an understatement in the valuation of an asset, and the Council's share of this is £2,237k. We do not consider these findings to be material and furthermore we have conducted our own analytical procedure on the pension assets and were satisfied with all conclusions drawn. Due to the asset ceiling adjustment, the misstatements do not impact the primary statements and are instead a classification adjustment within Note 42. Conclusion We have concluded our work in this area and have no further findings to report.

2. Financial Statements: other risks

Risks identified in our Audit Plan	Commentary
Completeness of non-pay operating expenditure 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. During the course of the three previous audits, there have been instances of expenditure not being accrued for which has led to further testing being conducted to ensure that no material misstatement existed. We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention	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 • 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. **Findings** <u>Agency costs</u> Similarly, to the outcome of our debtors testing, we identified from our sampling that an invoice for £380 related to 2021/22 but had been accounted for in 2022/23. This is because it fell below the de minimis limit for accounting for accruals. We considered whether there was a risk of material misstatement in expenditure as a result of this policy. We reviewed the invoices received between March 2023 and May 2023 and determined that there is no risk of material misstatement if they were all not accrued for, due to the size of the population. We are therefore satisfied that this provides us with assurance that management's assessment that this policy would not materially impact the accounts is appropriate. However, the last time management formally undertook such an assessment was in 2016/17. We recommend that this assessment is done on an annual basis to ensure that the conclusion that the accounts would not be materially misstated as a result of this policy, remains the case. <u>Payments made post year-end</u> In order to test the completeness of expenditure we sampled the payments made by the Council subsequent to the year end. We identified payments made that related to 2022/23 which had not been accrued for and were advised that this was due to the lack of a project manager allocated to monitor these particular capital expenditure items. We conducted further testing on this project (as well as to consider whether there were any other such projects without a project manager) and identified additional accruals which had not been made. We are reporting an unadjusted misstatement of £738k in this regard: that is to say that because of the missing accruals, the Council's expenditure is understated by £738k. We are not reporting this as an unadjusted misstatement as it is below our trivial threshold, but we report it here for completeness given that it involved extended testing. **Conclusion** We have concluded our work in this area and have no further findings to report.

2. Financial Statements: other risks

Risks identified in our Audit Plan	Commentary
Completeness, existence and accuracy of cash and cash equivalents The receipt and payment of cash represents a significant class of transactions occurring throughout the year, culminating in the year-end balance for cash and cash equivalents reported on the statement of financial position. Due to the significance of cash transactions to the Council, we identified the completeness, existence and accuracy of cash and cash equivalents as a risk requiring special audit consideration.	We • agreed all period end bank balances to the general ledger and cash book; • agreed cash and cash equivalents to the bank reconciliation; • agreed all material reconciling items and a sample of other items to sufficient and appropriate corroborative audit evidence; • obtained the bank reconciliation for the following month end and review the reconciling items against those included on the period end bank reconciliation; • wrote to the bank and obtain a bank balance confirmation; • agreed the aggregate cash balance to the relevant financial statement disclosures **Findings** As part of our work, we tested school balances that feed into the disclosed cash and cash equivalent balance to ensure that they are accurate. To ease with closedown pressures, the Council determined the value of the schools' bank balances to be included in the financial statements as at the end of February rather than March. We compared the February values used to the bank confirmations we received as at the year-end for a sample of 22 accounts and identified that the accounts were overstated by a value of £1.45m. To identify the overall impact on the financial statements we extended our testing to cover more bank accounts with the aim of identifying a quantifiable amount as opposed to projecting a potential misstatement. In total we tested 66 bank accounts and identified a total variance of £3.24m between the bank confirmation and the value per the financial statements, with the financial statements being overstated. This is included in Appendix D as an unadjusted misstatement and we have raised a recommendation for the Council to revisit the closedown process in this regard to ensure that the 31 March cash balances are recorded in the accounts. **Conclusion** We have concluded our work in this area and have no further findings to report.

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
Note 14 – Expenditure by Nature • The Code requires that a local authority discloses information on the nature of expenses it incurs, including depreciation and amortisation expense and employee benefits expense. The Council meets this requirement of the Code through *Note 14 – Expenditure and Income analysed by nature.*	We identified during mapping of the expenditure by nature note to supporting documentation that items had been misclassified between categories as follows: • An amount of £4.428m in other service expenses is better classified under depreciation, amortisation, impairment. • Similarly, an amount of £24m in fees and charges is better classified under Government grants and contributions. For 2021/22 it is proposed that the comparators are similarly updated so that the year-on-year balances are like for like: • An amount of £294k in other service expenses is better classified under depreciation, amortisation, impairment. • Similarly, an amount of £17m in fees and charges is better classified under Government grants and contributions.	We reported in our 2021/22 Audit Findings Report that other services expenses and depreciation figures were incorrect in this note due to hard coding of figures within the accounts working paper before all transactions were posted. This indicates that errors of this nature will continue to recur unless the workings are automated and hard coding removed. We have raised a recommendation in this regard at Appendix B.
Full time equivalent data • In our testing of payroll data we identified an error in our review of full-time equivalent numbers, relating to a starting employee whose details were wrongly included in the April figures.	This was identified as an error by the Council at the time and corrected in the following month. However, because we rely on the FTE data being accurate on a month-by-month basis for the purposes of our payroll testing, we extended our sample to determine whether this was indicative of an isolated error or whether it was pervasive.	No issues were identified from our extended testing and therefore we concluded we were able to rely on the FTE data for our payroll testing.

37

2. Financial Statements: key judgements and estimates

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

38

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £1,293m (audited figure)	Other land and buildings comprises £996m of 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 (£242m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end., with the balance being surplus assets. The Council uses its internal valuation team to complete the valuation of properties as at 31 March 2023. Approximately 99% of total assets were revalued during 2022/23. Management has considered the year end value of non-valued properties and has not identified indications that the valuation of these assets has changed by a material amount, which would warrant further formal valuations being undertaken. The total year end valuation of land and buildings (including surplus assets) in the unaudited accounts was £1,305m, a net increase of £75m from 2021/22 (£1,230m).	We have engaged our own valuer to assist with our work and challenge in this area, who has raised questions which we have used to inform our audit queries. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Montague Evans as our auditor's expert. We have considered the completeness and accuracy of the underlying information used to determine the estate. We have discussed the appropriateness of the indices and assumptions used by the Council's valuer and have identified errors as set out on pages 14 and 15. As noted on page 14, the initial valuation could not be supported in relation to the obsolescence factors applied, leading to the valuations for our sampled assets to be reperformed. Based on the revised valuations, we have determined an estimation uncertainty of approximately £7.9m by considering how the valuation of the remaining assets might change if they were subject to a similar revision. We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council, but given the errors identified, continue to recommend that the Council improve its processes and retention of documentation in this area.	We consider management's process is appropriate subject to actioning the recommendation we have raised

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Dwellings - £1,230m (audited figure)	The Council owns 19,435 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 and Eve LLP to complete the valuation of these properties. The unaudited year end valuation of Council Housing was £1,246m, a net increase of £85m from 2021/22 (£1,161m).	• We challenged the Council on why it is deemed appropriate to apply the revaluation accounting treatment to the asset base as a whole rather than individual assets. The response is that Council Dwellings are held in a separate data system and that the valuation is done by an external valuer based on the beacon valuation system. Due to the sheer volume of assets involved and because all assets are revalued in year, the bottom-line result of the Housing Revenue Account (HRA) system is what is included in the accounts. • We have reviewed relevant guidance which confirms it is permissible for revaluations to be applied at the asset group level and are therefore satisfied that management's approach is not unreasonable. • We note that as last year, the valuers prepared the valuation using estimated indices. This is to be expected given the required timing of the production of the valuation but we recommended in the prior year, and would expect, that the valuation is revisited when actual information becomes available so it can be compared to the estimate. Subsequent to audit team prompt, this exercise was undertaken and a revised valuation including a decrease of £16.7m (see Page 45). We have reviewed the new valuation and are satisfied with the amendment. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council, but given the issue identified, we continue to raise a recommendation for the Council to revisit this estimate as part of its accounts preparation process. • For other findings in relation to Council Dwellings please refer to page 16.	We consider management's process is appropriate subject to actioning the recommendation we have raised

2. Financial Statements: key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Funded scheme net pension liability/(surplus) – £nil

Unfunded scheme net pension liability/(surplus) – £36m

IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments.

IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.</td>
<td>The Council is disclosing a £nil net pension liability, for the funded scheme, at 31 March 2023.

The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from the scheme to which it contributes, which is the Leicestershire County Council Local Government defined benefit scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2022. Given the significant value of the net pension fund liability (surplus), small changes in assumptions can result in significant valuation movements. There has been a £590m net actuarial gain during 2022/23.</td>
<td>

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.

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>4.75%</td><td>4.75%</td><td>Satisfactory</td></tr>
<tr><td>Pension increase rate</td><td>3.20%</td><td>3.15% - 3.30%</td><td>Satisfactory</td></tr>
<tr><td>Salary growth</td><td>3.45%</td><td>2.95% - 3.95%</td><td>Satisfactory</td></tr>
<tr><td>Life expectancy – Males currently aged 45/65</td><td>45: 20.8
65: 21.7</td><td>19.1 – 21.5
20.4 – 23.2</td><td>Satisfactory</td></tr>
<tr><td>Life expectancy – Females currently aged 45/65</td><td>45: 23.9
65: 25.3</td><td>21.9 – 23.9
23.9 – 26.1</td><td>Satisfactory</td></tr>
</table>

No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.

</td>
<td>We consider management's process is appropriate.</td>
</tr>
</table>

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions - £10.6m	The Council discloses at Note 24 a list of provisions made as at 31 March 2023. They are: • Insurance: £3.6m • Housing Benefits £0.7m • Housing £0.5m • Business Rate Appeals £5.9m	The value of these provisions, both individually and in aggregate is not material and therefore we have performed limited work in assessing the reasonableness of these provisions. However, we have identified the completeness of provisions as a risk, i.e. the risk that the Council is not recognising all of the liabilities that it should be. We are particularly cognisant of the claim lodged by Biffa Group Holdings (UK) Limited and group companies, as disclosed in Note 43 Contingent Liabilities. It is disclosed as a contingent liability and not recognised as a provision as the Council have opined that the existence will be confirmed only by the occurrence of an uncertain future event not wholly within its control, i.e. the outcome of the claim. We are leaving this item open until such point as the accounts are signed. This is because if the claim moves through the courts, such that there is an outcome, it may need to be provided for, though we understand from the officers that this is now not likely to be until 2025.	We consider management's process is appropriate

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £14.8m	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. The year end MRP charge was £14.8m, a net increase of £1.0m from 2021/22.	We have assessed this estimate, considering: • whether the MRP has been calculated in line with the statutory guidance • whether the Council's policy on MRP complies with statutory guidance. • 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 • the reasonableness of the increase in MRP charge From the work undertaken we have no findings to report .	We consider management's process is appropriate

42

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

This work was completed to inform our audit risk assessment and was therefore completed before the cyberattack upon the Council on 7 March 2024. The audit was substantially complete at this date, and we are not relying on any further information from the Council's IT systems to provide us with assurance that the financial statements are not materially misstated; therefore, we have assessed there to be no impact upon our ability to conclude the 2022/23 audit. However, we will be undertaking detailed work alongside our IT colleagues to understand the impact (if any) of the cyberattack on the audit of the Council's 2023/24 financial statements.

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks and any additional procedures performed to address findings identified
Active Directory	ITGC assessment (design and implementation effectiveness only)	🟢	🟢	🟢	🟢	This pertains to overall security management and access rights and therefore links to all risks noted in the audit approach. No additional procedures were necessary
Business World/Unit 4 – financial reporting	ITGC assessment (design and implementation effectiveness only)	🔴	🔴	🟢	🟢	This system is related to the Council's financial reporting and therefore links to all risks noted in our audit approach. The findings are consistent with prior year and are noted in Appendix C. We conducted additional procedures in our testing of journals to respond to the risk of management as a result of these findings.

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟠 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

2. Financial Statements: Information Technology

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating: Security management	ITGC control area rating: Technology acquisition, development and maintenance	ITGC control area rating: Technology infrastructure	Related significant risks/other risks and any additional procedures performed to address findings identified
i-Trent	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	This system is related to the Council's payroll processes and therefore relates to our risk of the valuation of the net pension liability as we agree information provided to the actuary by the Council to source payroll data.
Civica	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	This system is related to the Council's council tax, business rates and housing benefits processes and therefore pertains to the risk identified of the completeness of non-pay operating expenditure.

44

Assessment

- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

2. Financial Statements: other communication requirements

45

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 Governance and Audit Committee and have not been made aware of any incidents in the period other than those which are reported to Committee from the local counter fraud services. No issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed, though we have undertaken additional work. Our findings in respect of this matter are presented in an additional Related Parties enquiry report, alongside this report.
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 set out at Appendix H.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to organisation with which it banks, invests and borrows. This permission was granted, and the requests were sent. The 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 in relation to accounting policies, but we identified some changes to disclosures which are set out in Appendix D.
Audit evidence and explanations/ significant difficulties	We continue to encounter challenges in obtaining robust evidence supporting the Council's valuations of its other land and buildings. Due to personnel changes, our questions could not be answered, and the valuations were therefore revisited by a different valuer. We continue to recommend that the rationale behind judgements and assumptions applied is evidenced and documented as the valuations are produced. If this process had been in place in respect of the valuations for the year ended March 2023, it is likely that significant time and effort could have been saved on the part of the audit, finance and valuation teams.

2. Financial Statements: other communication requirements

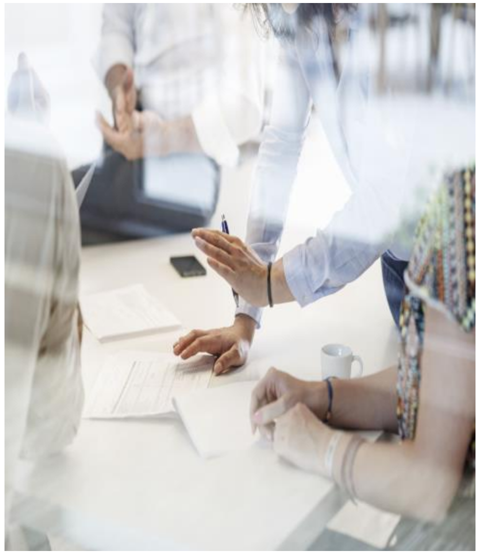
Our responsibility

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	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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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 • 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. 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: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	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. No inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • 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, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters, though note that our work on the objection raised on Selective Licensing is still underway as is our work on the Council's value for money arrangements.
Specified procedures for Whole of Government Accounts	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. However, we note that work is not required as the Council does not exceed the revised threshold of £2 billion. We will still however be required to submit a return to the National Audit Office on completion of our audit.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2022/23 audit of Leicester City Council in the audit report, as detailed in Appendix H, due to the need to complete work on the objection.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. 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

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 completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code, see Appendix H.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Financial Sustainability Based on the Council's current financial projections the increasing budget gaps will need to be supported by the use of reserves with both managed and general fund working balance reserves will be exhausted by 2025/26. The Council is developing responses but currently there is no clear or robust plan to address this gap and we consider that the Council is therefore having to place an over-reliance on non-recurrent measures to reduce the financial shortfall.	In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary: • Review of Council, Cabinet and committee reports. • Regular meetings with senior officers. • Interviews with other members and management. • Attendance at Audit Committee • Considering the work of internal audit. • Reviewing reports from third parties including Ofsted. • Reviewing the Council's Annual Governance Statement and other publications.	Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23.	We have raised a key recommendation: The Council should re-consider all aspects of service delivery in order to ensure financial sustainability with efforts being directed toward: • The identification and delivery of savings that reduce the indicative budget gap in 2024/25 and in future years, along with supporting the replenishment of reserves. These savings should be realistic, evidence-based targets as opposed to unachievable or overly-optimistic. • Reducing reliance on one-off measures to support the revenue budget (including non-recurrent savings, one-off grants and reserves) • Rebuilding the reserves balance to ensure it can be maintained to provide financial security and cushioning in the future Difficult decisions are likely to be required in future budgets. The Council should therefore ensure: • that its financial planning demonstrates and reports a clear understanding of statutory versus discretionary areas of spend, • that those discretionary areas can be managed within the available financial envelope, and • If required, how the reduction or removal of services in its long term plan fits with its organisational strategy and the priorities of stakeholders.

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 and consider that an objective reasonable and informed third party would take the same view. 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix F.

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 Grant Thornton International Transparency report 2023.

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 March 2024, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant 2021-22	7,500		
Certification of Housing capital receipts grant 2022-23	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence given the fee for the work in comparison to the total planned audit fee (per our Audit Plan) for the audit of ££175,9 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers Pension Return 2021-22	7,500	Self-review (because GT provides audit services)	We have considered the following and consider the self-review threat to be mitigated: • the materiality of the amounts involved to our opinion • unlikelihood of material errors arising • 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 2022-23	10,000		
Certification of Housing Benefit Claim 2021-22	62,000		
Certification of Housing Benefit Claim 2022-23	£32,400 core £1,500/day variable		

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 November 2023, as well as the threats to our independence and safeguards that have been applied to mitigate any threats identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
CFO Insights Subscription	12,500 (per annum for 3 years)	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 £12,500 in comparison to the total fee for the audit 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 work is undertaken by a team independent of the audit team. The audit will consider the accounting treatment of the payments made and this is not part of CFOi service. There is not considered to be a significant self-review threat.

Grant Patterson, the Key Audit Partner and Engagement Lead for the provision of the Council's external audit services is currently serving their 5th year on the engagement. In line with ethical requirements, to safeguard the threat of familiarity, he will rotate off the audit for the year commencing 31 March 2024 and beyond.

'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 Governance and Audit Committee.

None of the services provided are subject to contingent fees.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council or investments in the Council held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We are aware of local taxation charges paid by Grant Thornton UK LLP to Leicester City Council as a result of a Grant Thornton UK LLP office being located in Leicester. We do not consider these give rise to a business relationship between Grant Thornton UK LLP and Leicester City Council as the firm has no choice but to pay local taxes and therefore do not consider there to be any independence issues. We have not identified any other business relationships between Grant Thornton and the Council
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council's board, senior management or staff that would exceed the threshold set in the Ethical Standard.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Appendices

54

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 6 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 2023/24 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.

Assessment	Issue and risk	Recommendations
Low	**De minimis policy** In our testing of the Council's debtors balance as well as expenditure testing, we identified that management have not accrued for two sampled invoices due to the de minimis policy of not accruing for any transactions below £1k. We have gained assurance that the invoices raised, and invoices received under £1k received in March to April 2023 would not pose a risk of material misstatement if they were all not accrued for, due to the size of the populations in question. We are therefore satisfied that this provides us with assurance that management's assessment that this policy would not materially impact the accounts is appropriate. However, the last time management formally undertook such an assessment was in 2016/17.	We recommend that this assessment is done on an annual basis to ensure that the conclusion that the accounts would not be materially misstated as a result of this policy, remains the case. **Management response** We agree a regular review is carried out, but disagree that the review is needed on an annual basis, as the estimated size is c£1m.
Medium	**Grants income** In gathering evidence in support of sample testing of schools' grants income, management advised that a double counting error had been identified relating to two of our sample items. In their investigations a third such instance of double counting was identified, such that income from grants is overstated by £1.419m with an offsetting understatement in expenditure. This was also a reported error in our 2018/19 Audit Findings Report.	Albeit several years apart, this is a very specific error to have recurred, and we therefore recommend that the Council revisits its processes in relation to the processing of schools' grants income to ensure that such double counting does not take place in future. **Management response** Agreed – processes will be reviewed.

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**Expenditure and Income Analysed by Nature** This note is informed by a workpaper which is largely automated, but not completely. We identified in our testing this year (and in the prior year) that errors have arisen because of hard coding in this workpaper. This indicates that errors of this nature will continue to recur unless the workings are automated and hard coding removed.	We recommend that this workpaper is fully automated, or subject to more robust quality assurance checks as part of the closedown process, so that such errors are avoided. **Management response** Agreed, a review will be undertaken.
Medium	**Journals process** It is not best practice for senior officers to be posting journals as it has the potential to remove a layer of review, authorisation and approval. We note from the journals data that senior officers have not posted journals, but as reported on page 10, we identified evidence indicating that they have been posting to the ledger by proxy (ie by asking another officer to post something on their behalf, something that they themselves had prepared). Given that the Council has no automated authorisation process, this raises particular concerns, as it means that officers are posting journals prepared for them by more senior officers, who may then be responsible for the retrospective review of said journal. This has the potential to render the retrospective review ineffective and raises a segregation of duty concern, if the reviewer is reviewing their own work.	We recommend that the Council revisit its journals process in respect of this practice and ensure that where officers are posting on behalf of someone else, that those journals are subject to separate review. **Management response** We will review the journal process, and identify if and how a separate review can be added.
Medium	**Schools cash balances** For timing convenience, the Council use balances from February for schools as an estimate for the end of March position in the financial statements. We have compared this to the bank confirmation letter at year end and quantified a misstatement £3.24m.	We recommend that the Council revisit its closedown processes to ensure that the schools' cash balances as at the balance sheet date are appropriately reflected in the financial statements. **Management response** Due to the timescales involved in meeting SoA publication dates, we use an estimated figure for schools' cash balances. We are reviewing our processes to provide further assurance that the difference between estimated and actual balances is not material.
Medium	**Capital Additions - Goods Received Not Invoiced** We have identified four instances in our additions testing of capital accruals being overstated as the goods/services had not been received before 31 March.	We recommend management ensure that capital accruals are reviewed to ensure that they are being based on actual goods/services received. **Management response** Additional training and guidance has been provided for capital project managers, as part of the preparation for 2023/24 closedown. Accruals will also be reviewed by finance staff before posting.

C. Follow up of prior year recommendations

We identified the following issues in the audit of Leicester City Council's 2021/22 financial statements, which resulted in 5 recommendations being reported in our 2021/22 Audit Findings report. We reported interim progress against these in our audit plan, but as work was still underway, we were not in a position to close the recommendations down at that time.

We have followed up on the implementation of our recommendations and note that 2 are still to be completed, the risk in relation to 1 has been accepted by the Council, and 2 have been satisfactorily addressed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓x	**Segregation of duty conflicts within i-Trent and Unit 4** Administrative access to i-Trent (via 'LCITC SYSTEM ADMIN') and Unit 4 (via 'AG-SYSTEM' role) has been granted to users who have the ability to enter financial transactions. The combination of this and the ability to administer end-user security is considered a segregation of duties conflict. We noted that the following individuals had such elevated permissions: i-Trent • 1 user as Corporate Payments Manager' from the 'Payroll' department. • 3 users as 'Operational Pensions and Payment Officer' from the 'Payroll' department 1 user as System support and development officer from the 'Payroll' department. Unit 4 • 'Finance Systems Technician' from the Finance department. • 'Accountant' from the Finance Team. We recommended that: • Management should consider reviewing access rights assigned to all system users to identify and remove conflicting access rights. • 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. • 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.	This finding has been partially remediated. i-Trent We acknowledge that admin access to iTrent via 'LCITC SYSTEM ADMIN' has been remediated with the addition of new security profile and logging of activities of the same. The system administrator can access to these logs and are monitored on monthly basis. We also inspected there were no unjustifiable actions has been taken by Payroll team. Unit 4 We have noted the exception remains same for this year and further that this finding will not be remediated by the Council on the grounds that management believe the user configuration is appropriate to ensure the smooth and effective running of the Council's processes and procedures. Management have therefore accepted this segregation of duties risk, but to mitigate it from an audit perspective, we have designed tests accordingly in our approach to journals testing, as set out on page 9.

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	**Valuation process of other land and buildings** We recommended in previous years that officers and the valuer ensure that the information used in the valuation process is the most up to date and in line with relevant guidance. We also recommended that the valuer documents robustly and in detail, the rationale behind assumptions applied as the valuations are produced, to ensure that an audit trail is readily available. This was a recommendation rolled forward from 2020/21 and raised again in 2021/22.	We continue to encounter challenges in obtaining robust evidence supporting the Council's valuations of its other land and buildings. Due to personnel changes, our questions could not be answered, and the valuations were therefore revisited by a different valuer. We continue to recommend that rationale behind judgements and assumptions applied is evidenced and documented as the valuations are produced. If this process had been in place in respect of the valuations for the year ended March 2023, it is likely that significant time and effort could have been saved on the part of the audit, finance and valuation teams.
x	**Valuation process of Council dwellings** The Council used the housing price index to uplift house prices using indices at February 22 with an estimate for March 2022. We were satisfied from our analysis that using February indices instead of March does not materially impact the valuation and we are satisfied that the estimate is reasonable. We are aware of the timings needed in order to produce valuations and the valuer at the time did use the most up to date information with an estimate of movement made for March 2022 which wasn't available at that time. We recommended that valuations determined using estimates are revisited when actuals are known, to provide additional assurance that there is no material misstatement.	The analysis was undertaken by the valuer, but it was not reviewed until prompted by the audit team. The subsequent analysis and exercise has resulted to a material amendment to the financial statements. We therefore do not consider this recommendation to be met.
✓	**Annual Governance Statement** We considered the Council's Annual Governance Statement to be 'light' in comparison to other examples we see in the sector. While we have concluded it meets requirements the Council should consider enhancing its narrative for future years to more fully explain its governance arrangements, especially in light of governance failures elsewhere in the public sector.	The Council shared with us its draft Annual Governance Statement prior to publication, and we were satisfied that additional information had been included to address the recommendation made in prior year. We note that the Statement will need to be updated for any relevant issues between the balance sheet date and the date that the accounts are signed.

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	**Terms of Engagement with valuers responsible for valuing Council Dwellings** We noted that, overall, the terms of engagement outlining the scope of works of the portfolio of properties by the Council's valuer is deemed satisfactory as at the valuation date of 31st March 2022 but could be improved in two aspects: • the information to be relied upon by the Valuer is not set out in any detail; and • it is unclear whether any special assumptions will be included. We recommended that these missing aspects are included in the Terms of Engagement in the future.	We have commissioned an auditor's expert to review the work done by the external valuer. They commented that there continues to be no reference to the valuation methodology to be used or the actual nature of the assets to be valued. They noted that the valuer set out the assumptions noting the accuracy of the beacon valuation is a major factor governing the quality o the housing stock valuation, but noted that the valuer did not confirm whether any properties were treated differently, ie whether special assumptions were applied. We therefore do not consider this recommendation to be met. We have raised all questions raised by our expert with the Council's valuers and would expect them to be addressed as a matter of course in the report provided in future years.

D. 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 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000
Pension We identified that the asset ceiling adjustment was applied to Unfunded schemes which we do not deem to be appropriate. The council has proposed to amend the final accounts so the adjustment covers the LGPS funded scheme only.	36,012	-36,012	36,012	-
Highways depreciation We identified an error in the amount of depreciation charges to highways infrastructure which has arisen due to a hard coded deduction of £2.6m in the depreciation formula for each of the 5 highway infrastructure assets in the register, (ie £12.9m in total), which relates to the prior year and has been included this year in error. This reduction in depreciation has also resulted in a disposal of £1,186k as brought forward depreciation is less than in year additions.	Depreciation -12,921 Loss on disposal 1,186	PPE 12,921 PPE -1,186	-11,735	-
Council Dwellings indexation Revisit valuation to update with actual information in place of estimates. This is a reduction in PP&E net book value and the revaluation reserve.	-	PPE -16,708 Revaluation reserve 16,708	-	-
Debtors and Receipts in Advance Leaseholder service charges for 2023/24 of £2.9m were identified as being held both as a debtor and a receipt in advance (liability). We challenged this treatment on account that monies had not been received and as it related to 2023/24 it should not be a debtor in the 2022/23 financial statements.		2,966 -2,966		-

continued overleaf….

D. 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 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000
Land at Travellers Sites The valuer has recorded a nil value in respect of land at traveller sites which has not been updated in the fixed asset register meaning that the land value is overstated in the accounts. The corresponding entry is a debit impact the CIES.	1,163	-1,163	1,163	-
OLB and Surplus revaluations We identified a number of errors through the course of our substantive testing. This includes: - an adjustment to the obsolescence assumption for DRC buildings - errors identified in the key inputs such as build costs, GIA, and income. - calculation errors.	2,339	PP&E -10,781 Revaluation reserve 8,443	2,339	-
Overall impact	£27,779k	£27,779k	£27,779k	£0

D. Audit Adjustments

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/issue/Omission	Auditor recommendations	Adjusted?
Note 15 – valuation timings note We have identified a misstatement in the valuation timings note due to the inclusion of the gross book value of highways infrastructure. This inclusion renders the note inconsistent with the PP&E note, as management has opted not to include Highways Infrastructure therein.	Management response This has been adjusted.	Yes
Note 14 – Expenditure and Income analysed by nature We identified during mapping of the expenditure by nature note to supporting documentation that items had been misclassified between categories as follows: • An amount of £4.428m in other service expenses is better classified under depreciation, amortisation, impairment. • Similarly, an amount of £24m in fees and charges is better classified under Government grants and contributions. For 2021/22 it is proposed that the comparators are similarly updated so that the year-on-year balances are like for like.: • An amount of £294k in other service expenses is better classified under depreciation, amortisation, impairment. • Similarly, an amount of £17m in fees and charges is better classified under Government grants and contributions.	Management response This has been adjusted.	Yes
Note 18 – Financial Instruments Additional narrative added clarifying some lines within the balance sheet contain financial instruments as well as non-financial instruments. • Trade receivables and debtors figure have increased from £32,039k to £45,385k. • PFI and arrangements within short term creditors has been increased by £1,410k in respect of the prior year (not material so we are satisfied no prior period adjustment is required). The equivalent figure for the current year has increased by £912k.	Management response This note has been reworked in the final Statement of Accounts for clarity	Yes

continued overleaf…

D. Audit Adjustments

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/issue/Omission	Auditor recommendations	Adjusted?
Note 15 A capital project was revalued to nil through a downwards revaluation, when it should not have been. The assets to which the expenditure relates have been revalued in year therefore there is no impact on the PPE net book value, and this is a classification adjustment of £889k between revaluation charged to the CIES and revaluation reserve.	Management response This has been adjusted.	Yes
Note 15 When an asset's valuation decreases year on year, Code requirements are for any amounts pertaining to that asset in the revaluation reserve to be taken account out first and if that balance is extinguished to then take differences to the CIES. We identified a number of assets in the fixed asset register where this approach had not been applied. The impact is that charges to the revaluation reserve are understated by £1.037m, and charges to the CIES are overstated by the same amount. This is a classification misstatement within the PPE note.	Management response This has been adjusted.	Yes
Note 15 An asset which has been depreciated by £1.025m should have been treated as a downwards revaluation. This is a classification misstatement within the PPE note.	Management response This has been adjusted.	Yes
Note 20 £3.8m of Integrated Commissioning Board (ICB) debtors incorrectly recorded under 'Other Entities and Individuals' as opposed to 'NHS bodies'	Management response This has been adjusted.	Yes
Note 34 – External Audit Costs The fees do not reconcile with those proposed in our audit plan or reported in this report. A reconciliation is provided on page 54.	Management response The note does not reconcile to the numbers in this report as it contains elements relating to work carried out in 2022/23 in relation to 2021/22 which is reflected in the 2021/22 statement of accounts, and work for 2022/23 which will be carried out in 2023/24 and therefore be reflected in the statement of accounts for 2023/24.	No
Note 35 – Revenue Grant Income In gathering evidence in support of sample testing of grants income, double counting errors were identified, such that income from grants is overstated by £1.419m with an offsetting understatement in expenditure	Management response Not adjusted as not material, however processes have been reviewed for 2023/24 closedown.	No

continued overleaf….

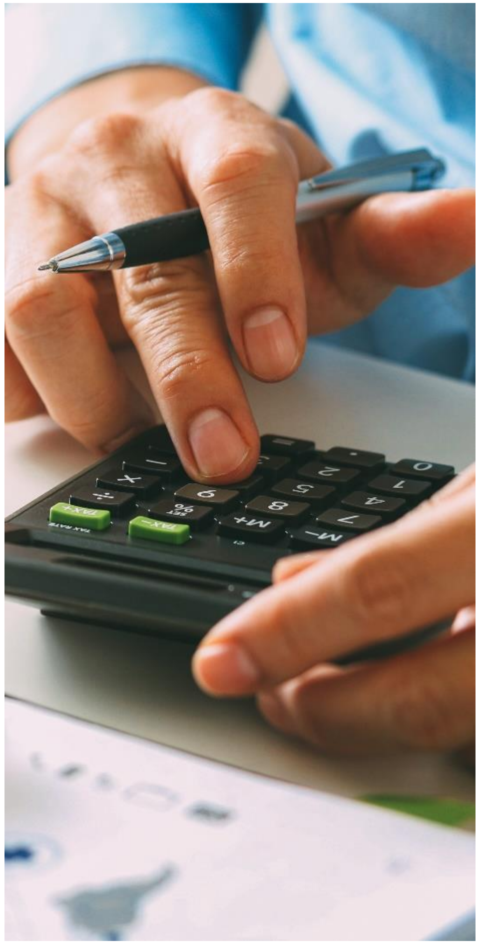
D. Audit Adjustments

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/issue/Omission	Auditor recommendations	Adjusted?
Note 39 - Page 114 opening balance of £43.611k for Judgemeadow whereas prior year's closing shows £40,060k. Page 115 BSF2 shows opening balance of £80,140k, but closing balance was £74,365k in prior year. This represents an adjustment to a prior period value in the account and it is to update for valuations revised in the 21/22 audit. This is not material therefore there is no reason for management to adjust the prior year figures in the disclosure.	Management response This was an error in the 21/22 accounts, superseded by later valuations / calculations for 2022/23 year-end balances. The impact is not material.	Yes
Note 42 - Defined benefit schemes The Pension fund auditor has informed us that the actuary used an estimated rate of return to calculate the Pension fund's assets. They have evaluated the impact as an overstatement of £4,877k for the Council's assets. Due to the asset ceiling adjustment, this adjustment does not impact the primary statements and is instead a classification adjustment within Note 42.	Management response Not adjusted as not material and (due to pension accounting rules) has no impact on our core statements.	No
Note 42 - Defined benefit schemes The Pension fund auditor has informed us that when comparing the asset listing to confirmations, they identified a £7,574k misstatement. Apportioning this for the Council's proportion of assets indicates that assets have been understated £2,237k. Due to the asset ceiling adjustment, this adjustment does not impact the primary statements and is instead a classification adjustment within Note 42.	Management response Not adjusted as not material and (due to pension accounting rules) has no impact on our core statements.	No
Note 42 – Defined benefit schemes The draft accounts were based on the actuary report dated 26/04/23. The revised report was received on the 09/06/23 which was too late for the draft accounts publication. The Council has proposed to adjust the totals to reflect the revised report in the final accounts. Due to the asset ceiling adjustment, this adjustment does not impact the primary statements and is instead a classification adjustment within Note 42.	Management response Draft accounts were based on the latest information available at the time. Due to the timescales of the actuarial valuation and the draft accounts publication this is likely to recur in future years,	Yes
Note 42 – Defined benefit schemes The disclosure pertaining to the asset ceiling adjustment will be amended to exclude unfunded schemes. A corresponding commentary will be added to Note 5 – Estimation Uncertainty to explain the asset ceiling adjustment that has been applied in accordance with IFRIC 14.	Management response Note 5 has been amended for clarity.	Yes

D. Audit Adjustments (continued)



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Governance and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Fees, charges and other service income In our initial testing we identified an invoice for £6.6k which related to 2021/22 but had been recognised as income in 2022/23. When projected across the population this leads to an extrapolated uncertainty of £3.087m. This means that if we assume that this error is representative of the population, when it is projected, there is a risk that fees, charges and other service income is overstated by £3.087m.	3,087	-3,087	3,087	3,087	Not considered to be material and is a projected misstatement
continued overleaf….					

D. Audit Adjustments (continued)

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
PPE revaluations Extrapolation due to errors identified in a sample of assets with year-on-year movements in line with expectations. If we assume the error rate to be indicative of the population as a whole this would suggest that the value of existing use value assets is understated, with a notional corresponding increase to the revaluation reserve.		PPE 1,310 Revaluation reserve -1,310			Not considered to be material and is a projected misstatement
PPE additions Extrapolation due to incorrectly marking goods as receipted though they had not been. The impact is an overstatement of PPE, and an overstatement of Creditors.		PPE -3,534 Creditors 3,534			Not considered to be material and is a projected misstatement
Schools' cash balances Overstatement of cash balances as February balances were not updated to reflect March balances.	3,240	-3,240	3,240	£3,240k	Not considered to be material
Overall impact	**£6,327k**	**-£6,327k**	**£6,327k**	£6,327k	

D. Audit Adjustments (continued)

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 2021/22 financial statements. We are satisfied that these adjustments are still not required as they are not material in respect of 2022/23 and their impact has been superseded through revised valuations and that the cumulative impact on the CIES is not material.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Ashton Green: the valuer has overstated this asset by value by £1,500k by failing to take into account a land sale which had impacted the site area, on which the asset was valued. The accounts have not been amended for this error.	1,500	-1,500	1,500	-	Not material
Forest Lodge Education Centre: A formula error within a spreadsheet has led to an overstatement of this asset of £1,371k. The valuation spreadsheet has been checked by the Council's capital accountant for any similar errors and this was concluded to be an isolated instance. The financial statements have not been amended for this error.	1,371	-1,371	1,371	-	Not material
Overall impact	£2,871	-£2,871	£2,871	-	

E. Fees and non-audit services

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

Audit fees	Proposed fee	Final fee
Scale fee published by PSAA for 2022/23 (This includes 'baked-in' increases from previous years which continue to apply for future years in relation to: • £4,375 pension valuations • £5,438 for PPE valuations • £6,250 for additional FRC challenge	128,947	128,947
Reduced materiality	3,750	3,750
ISA 540	6,000	6,000
Enhanced journals testing	3,000	3,000
Increased audit requirements for ongoing raising on quality standards - FRC	1,500	1,500
Infrastructure	2,500	2,500
Appointment of auditor's expert in respect of PP&E valuations	5,000	5,000
Enhanced audit procedures for Payroll – Change of circumstances	500	500
Enhanced audit procedures for Collection Fund - reliefs testing	750	750
Increased audit requirements of revised ISAs 315	5,000	5,000
Additional work on Value for Money (VfM) under new NAO Code	20,000	20,000
Total fees per Audit Plan	**176,947**	**176,947**
Proposed additional fees due to extended testing in the areas of: Valuation of Council Dwellings; Grants; Debtors; Additions; Expenditure completeness; FTE data; Journals*	13,000*	TBC*
Total audit fees (excluding VAT)	**£189,947**	**£TBC**

* We have estimated a potential fee variation at this time, due to additional work performed and time incurred on the Council's valuation of other land and buildings, given the issues we have encountered in securing appropriate audit evidence. It is subject to discussion with management. We will also seek a fee variation in respect of time spent on responding to the objection received.

- All variations to the scale fee will need to be approved by PSAA

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services eg Grant Claims comprising: - 21-22 housing capital receipts grant which was delivered in 22-23 year - 22-23 housing capital receipts grant which was delivered in 23-24 year - estimate for 22-23 housing benefit work of £62k based on prior year fee - 21-22 teachers pension return delivered in 22/23 year - 22-23 teachers pension return delivered in 23/24 year	97,000	TBC
CFO Insights	12,500	12,500
Total non-audit fees (excluding VAT)	**£109,500**	**£TBC**

The fees payable to Grant Thornton do not reconcile to the financial statements. See below for reconciliation:

Fees per financial statements:

70

- External Audit - £179k
- Other Services - £84k

Reconciling Items (Audit fees):

- Over-accrual of audit fee 2022/23 based on an estimate - £2k
- Additional audit fee due to extended testing - £13k*

Reconciling Items (Non-audit fees):

- Under-accrual of Housing benefit claims 2022/23 based on an estimate - £8k
- Under-accrual of Teachers Pension 2021/22 based on an estimate - £2k
- Over-accrual of housing capital receipts grant claim 2021/22 based on an estimate - £4k
- 2022-23 housing capital receipts grant delivered in 2023/24 year - £10k
- 2022-23 Teachers Pensions delivered in 2023/24 year - £10k

Total Fees:

- External Audit - £190k
- Other Services (as above) - £110k

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the Council, its executive and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

* We have estimated a potential fee variation at this time, due to additional work performed and time incurred on the Council's valuation of other land and buildings, given the issues we have encountered in securing appropriate audit evidence. It is subject to discussion with management. We will also seek a fee variation in respect of time spent on responding to the objection received.

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) ‘Identifying and Assessing the Risks of Material Misstatement’
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) ‘Quality Management for an Audit of Financial Statements’
ISA (UK) 240 (Revised May 2021) ‘The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

71

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the ‘engagement team’ to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Management Letter of Representation

Leicester City Council
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Leicester City Council for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the Council financial statements give a true and fair view in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 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 2022/23 ("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 property, plant and equipment and the valuation of the net pension liability 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

G. Management Letter of Representation

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 and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial, both quantitively and qualitatively, 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. 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 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.

d. 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

xv. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xvi. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.

xvii. We have considered whether the Council is required to reflect a liability in respect of equal pay claim within its financial statements. We confirm that we are satisfied that no liability needs to be recognised on the grounds that the Council applies the Greater London Provincial Council job evaluation scheme and there are no liabilities to recognise in respect of task and finish practices.

G. Management Letter of Representation

The Council's process has been subject to recent audit, which concluded that the JE scheme used "should provide reliable and consistent job evaluation results".

xviii. We have considered whether the Council is required to reflect the impact of any buildings identified to have reinforced autoclaved aerated concrete (RAAC). We confirm that we are satisfied that the impact of RAAC-related issues on the Council's estate is not material.

xix. The prior period adjustments disclosed in Note 14 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

Information Provided

xviii. 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 from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware.

xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi. 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.

xviii. 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.

xxiii. 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.

xxiv. 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.

xxiv. 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.

xxv. 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

xxvi. 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

xxvii. 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.

H. Audit opinion

Our audit opinion is included below.

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of Leicester City Council (the 'Authority') for the year ended 31 March 2023, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance and Section 151 Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Director of Finance and Section 151 Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public

H. Audit opinion

sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority’s disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Director of Finance and Section 151 Officer’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance and Section 151 Officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts , other than the financial statements and our auditor’s report thereon . The Director of Finance and Section 151 Officer’s is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with ‘Delivering Good Governance in Local Government Framework 2016 Edition’ published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit ; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;

H. Audit opinion

- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority and the Director of Finance and Section 151 Officer

As explained more fully in the Statement of Responsibilities set out on pages 12 and 13, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Section 151 Officer. The Director of Finance and Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Section 151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015,the Local Government Act 2003) , the Local Government Act 1972, the Local Government and Housing Act 1989, and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and the Local Government Finance Act 2012)

We enquired of management and the Governance and Audit Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Governance and Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority's financial statements to material misstatement,

H. Audit opinion

including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of:

- Potential management bias in determining accounting estimates for the valuation of land and buildings and council dwellings
- Potential management bias in determining accounting estimates for the valuation of the net pension liability including application of IFRIC 14 - IAS 19 - the Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction
- incomplete recognition of year-end non-pay operating expenditure

We determined that the principal risks were in relation to period end journal entries, and those posted on behalf of others. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a particular focus on segregation of duties conflicts within the IT control environment, and significant journals at the end of the financial year, which impacted on the Authority's financial performance,
- substantive testing on payments and receipts to ensure appropriate cut-off had been applied, and therefore that income and expenditure had been recognised in the correct period;
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of other land and buildings, and council dwellings

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations.

Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the potential for fraud in revenue and expenditure recognition, and significant accounting estimates related to other land and buildings, council dwellings, and the net pension liability.. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector
- understanding of the legal and regulatory requirements specific to the Authority including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

H. Audit opinion

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have nothing to report in respect of the above matter except on 18 April 2024 we identified:

- a significant weakness in how the Authority plans and manages its resources to ensure it can continue to deliver its services. This was in relation to the Authority's increasing budget gaps that will need to be supported by the use of reserves, and the forecast that both managed and general fund working balance reserves will be exhausted by 2025/26. We recommend that the Authority re-consider all aspects of service delivery in order to ensure financial sustainability, with efforts being directed toward:

- The identification and delivery of savings that reduce the indicative budget gap in 2024/25 and in future years, along with supporting the replenishment of reserves. These savings should be realistic, evidence-based targets as opposed to unachievable or overly-optimistic.

- Reducing reliance on one-off measures to support the revenue budget (including non-recurrent savings, one-off grants and reserves)

- Rebuilding the reserves balance to ensure it can be maintained to provide financial security and cushioning in the future.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

H. Audit opinion

08

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Leicester City Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our consideration of an objection brought to our attention by a local authority elector under section 27 of the Local Audit and Accountability Act 2014.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2023.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

grantthornton.co.uk

ANNUAL ACCOUNTS

2022/23

Leicester
City Council

CONTENTS

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 2022/23.

1. Introduction

Leicester City Council is a unitary authority in the East Midlands, consisting of 54 councillors, representing 21 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 of our employees work within schools.

During 2022/23, the Council faced increased costs due to the higher levels of cost and pay inflation since the budget was prepared, which alongside continuing pandemic related income shortfalls resulted in a £4.4m overspend. The Council was able to fund this overspend from reserves due to its managed reserves strategy. However, this has reduced the amount of reserves available to support future budgets. High inflation is anticipated to continue into 2023/24 and will have a long-term impact on the finances of the Council. In contrast, rising interest rates have meant that our investment income increased since the budget was set, which offset the overspend to a limited extent.

During this year, the Council continued to support local businesses through the cost of living crisis by administering business grants and reliefs to those affected. The Council paid out £18.8m in grants where acting as an Agent for the Government and has therefore not recognised these in the accounts. In addition, the Council has helped to support its residents and local businesses through schemes such as the Household Support Fund, Covid-19 Additional Relief Fund and the Retail, Hospitality and Leisure Business Rates Relief.

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 2022/23 are:

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

Some of the key outcomes from the Mayor's pledges in 2022/23 have been:

- Investment in regeneration schemes, including three significant levelling up schemes
- Investment in council housing
- Work with local businesses and residents to support them through the cost of living crisis

Narrative Statement

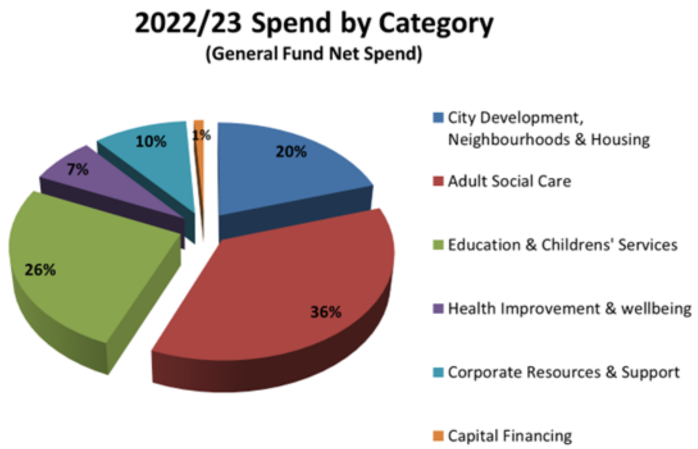
2. Financial Performance

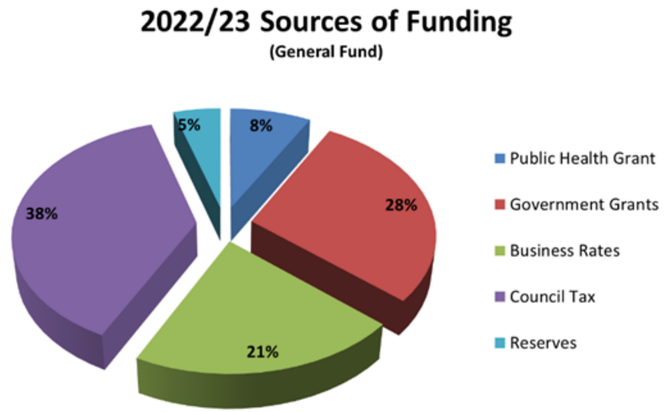
The budget for 2022/23 was set in an unprecedented and difficult financial situation. Following on from severe spending cuts for over a decade and the pandemic, that put pressure on service spend and on income streams. It is positive to note the Council has managed to remain within its resources for this financial year.

Net expenditure on provision of services was £443m in 2022/23 and £360m in 2021/22. 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 right.

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





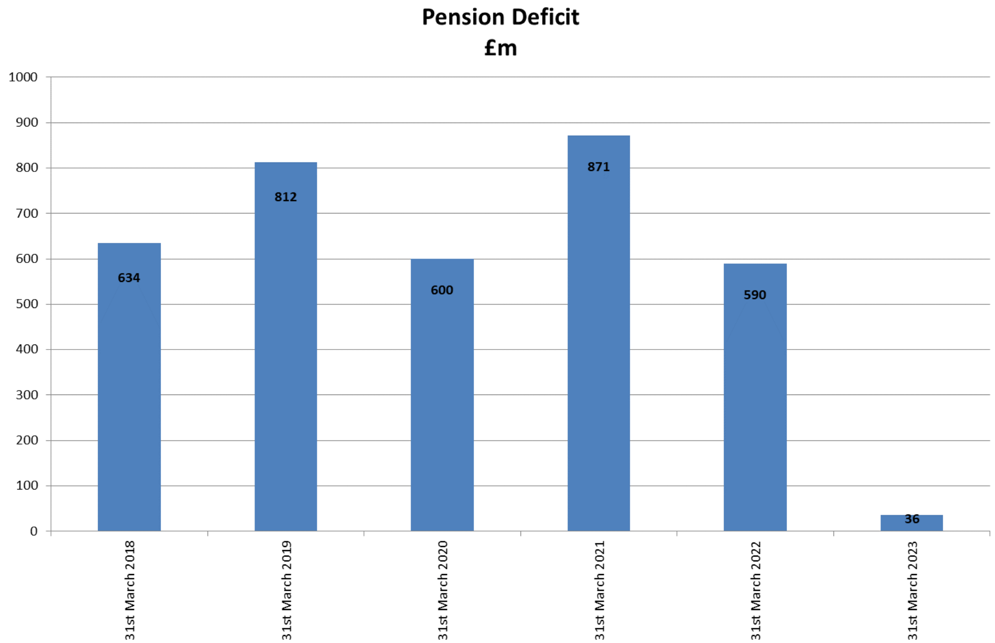
Narrative Statement

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 has shown a significant deficit in recent years. 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 has occurred on a year-by-year basis because of these changes, and hence, the limited context in which annual movements should be viewed.

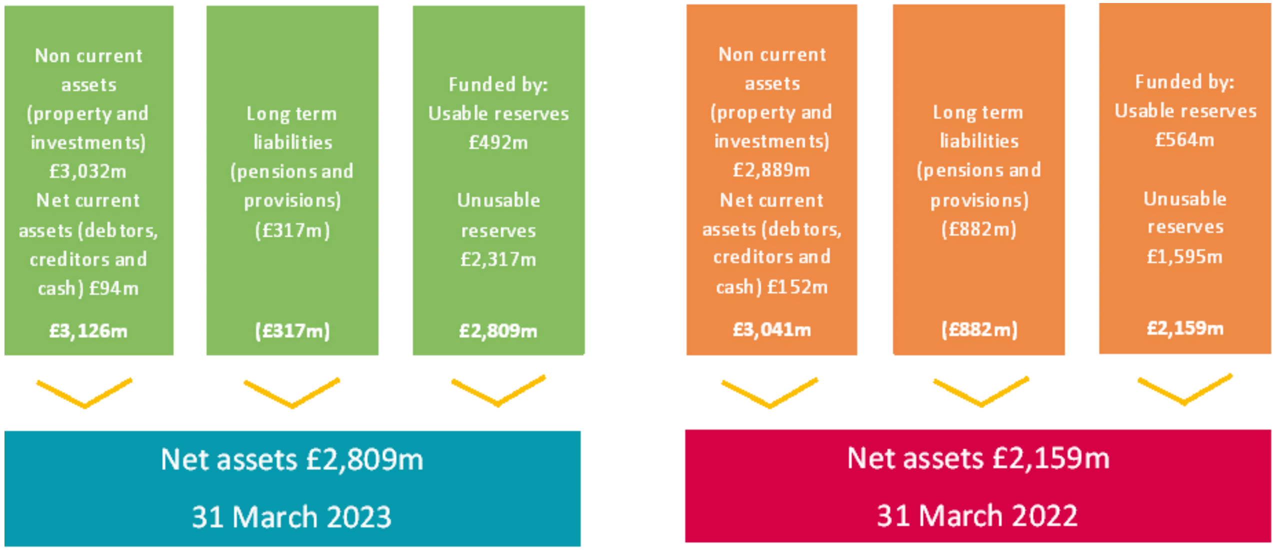
This year, however, there is a net asset on the pension fund, due to the significant change in economic indicators. However, due to asset ceiling accounting requirements, the only element that is recognised is a £36m deficit relating to unfunded liabilities. This is explained further in the pension fund disclosures in Note 42.



Narrative Statement

Net Assets

The Council maintains a strong balance sheet despite financial challenges, with net assets of £2,809m at 31st March 2023 (£2,159m at 31st March 2022).



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.

Cash & Cash equivalents at 31st March 2023 were £83m, £73m lower than the previous year, as a result of previously receiving government grants ahead of need. A substantial portion of the cash balances have resulted from funds set aside to repay long term borrowing, which has not been practical as Government rules have made it prohibitively expensive to repay PWLB debt early.

Narrative Statement

Capital

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

- Neighbourhood works
- Levelling up schemes
- Council house improvements
- Additional school places
- Affordable Housing

Capital expenditure of £144m was incurred in 2022/23, compared to £153m in 2021/22. Details of the spending can be seen in the table.

The key projects within 2022/23 that are expected to continue during 2023/24 and beyond are the Connecting Leicester scheme, redevelopment of the Waterside, Leicester Market Redevelopment and our Levelling Up projects.

Capital Expenditure 2022/23		
Category	£m	Spending includes:
Planning, Development & Transport	56.0	Connecting Leicester, Waterside Strategic Regeneration area, Leicester Railway Station, Electric bus investment, Transport Improvement Works, Highways Maintenance
Housing Revenue Account	31.3	Affordable Housing Acquisitions, Council House Improvements; including environment and communal
Schools	13.3	Schools' maintenance, additional Primary, Secondary and SEND places
Tourism, Culture & Inward Investment	10.1	Jewry Wall Museum, Leicester Market Redevelopment, Pilot House & Growth Hub
Estates & Building Services	18.8	Energy Efficiency Technology, Property and Operational Estate Maintenance, Green Homes
Neighbourhood & Environmental Services	2.4	Waste vehicles, Western Park Sanitisation Tree Works, Reuse shop expansion and Parks & Open Spaces
Housing General Fund	5.6	Disabled facilities grant, Central Vehicle Fleet Replacement Programme
Other	6.9	Public Health schemes, Children's Homes, IT and Getting Building Fund
TOTAL	**144.4**	

Narrative Statement

Leicester and Leicestershire Enterprise Partnership (LLEP)

The Council is the accountable body for the LLEP. The LLEP is a strategic body made up of local government and business leaders as well as senior education and third sector representatives. it is formally constituted as a company limited by guarantee, although has remained dormant. 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 associated finances. As at the 31st March 2023 the Council held £26.9m associated with the LLEP which comprises the LLEP's operating reserve of £3.2m and £23.7m for the local business rates pool and enterprise zones which is managed by the LLEP. The total is shown as a creditor in the balance sheet. The LLEP's operating 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 2022/23. The £1.520m surplus includes income of £449k relating to specific programmes that will be spent in 2023/24.

	2022/2023
	£000's
Income	
Grants	440
Contributions	188
National and Local Programme Income	1,752
Fees, Interest and Other Income	1,417
Total Income	**3,797**
Expenditure	
Staffing	555
Running Costs	237
Accountable Body Costs	167
Programme Delivery	1,318
Total Expenditure	**2,277**
Net Surplus / (Deficit)	**1,520**

In March 2023, the Government announced its intention to cease providing 'core funding' to Local Enterprise Partnerships from April 2024, and set out its expectation that in future their functions will be delivered by local democratically elected leaders. The LLEP Board and local stakeholders will work through the implications during 2023/24, which are expected to include the LLEP ceasing to exist in its present form.

3. Governance

Details regarding the Council's governance arrangements can be found in the Annual Governance Statement (page 149) along with the significant risks facing the authority.

4. Looking Ahead

The Council has set a balanced budget for 2023/24, with a contribution from managed reserves. Further detail on the Council's long- term strategy can be found in the budget report, which is available on the Council's website.

However, the future outlook continues to be uncertain. The recent spike in inflation has led to significant pressures particularly in respect of pay, energy and packages of social care which will continue to impact future years. Whilst new money was made available for social care, it is insufficient to meet our forecast cost growth.

The Council is forecasting future substantial budget gaps and estimates that available managed reserves will run out during 2024/25, requiring the use of the General Fund Balance. Departments within the Council are working on achieving savings and reducing pressures where possible to remove the use of General Fund Balance.

In addition to the General Fund budget pressures highlighted above, the Dedicated Schools Grant (High Needs Block) budgets for children and young people with special educational needs and disabilities continue to be under severe pressure.

These budgets have recorded a £2.4m overspend in 2022/23, resulting from unavoidable overspends, with the cumulative balance on the DSG deficit reserve being £6m. Under a "statutory override" available until 2025/26, this deficit does not reduce our General Fund reserves. However, a deficit recovery plan is being prepared, which all authorities are required to do. Nonetheless, it remains unclear how the situation is retrievable without further government support, given the continued increase in demand for these services.

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

5. Conclusion

The Council expects to continue to operate with- a revenue budget that fails to keep pace with cost increases 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 2023. 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 2022/23. This is based on International Financial Reporting Standards adopted for use in the public sector context.

The Core Statements are:

- The **Comprehensive Income and Expenditure Statement (CIES)** – this shows the net cost of providing services. This statement is prepared on the accounting basis. The Expenditure and Funding Analysis compares the CIES with the level of income and expenditure which are taken into account when setting the annual budget and council tax, since certain amounts are disregarded under statute.

- The **Movement in Reserves Statement** is a summary of the changes in the Council's reserves over the course of the year. Reserves are divided into usable reserves which can be used to fund future expenditure and unusable reserves which are maintained to meet statutory responsibilities.

- The **Balance Sheet** shows the Council's assets and liabilities at the year end. Net assets are matched by reserves which may be usable or unusable.

- The **Cash Flow Statement** shows the changes in cash and cash equivalents during the year and explains the reasons.

The Supplementary Financial Statements are:

- The **Annual Governance Statement** which provides an overview of the Council's key governance arrangements. Along with updating readers on the conclusions of the annual review, including any changes and improvements that are being made.

- The **Housing Revenue Account** is a statutory ringfenced account relating to the provision of rented social housing.

- The **Collection Fund** which records all income and expenditure in relation to council tax and business rates and the redistribution to precepting authorities.

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

Group Accounts Preparation:

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

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Section 151 Officer.
- 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 Governance & Audit Committee.

Signed:

Chair of Audit and Risk Committee **Date:**

Statement of Responsibilities for the Statement of Accounts (continued)

The Section 151 Officer Responsibilities

The Section 151 Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Section 151 Officer has:

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

The Section 151 Officer has also:

- Kept proper accounting records, which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts has been prepared in accordance with proper practices and presents a true and fair view of the financial position of the City Council and its income and expenditure for the year ended 31st March 2023.

Signed:

Amy Oliver CPFA, Director of Finance & Section 151 Officer **Date:**

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

This page has been left blank for the Independent Auditor ’s Report.

This page has been left blank for the Independent Auditor 's Report.

This page has been left blank for the Independent Auditor 's Report.

This page has been left blank for the Independent Auditor 's Report.

This page has been left blank for the Independent Auditor 's Report.

This page has been left blank for the Independent Auditor 's Report.

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 surplus in 2022/23 of £649m.

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.

2021/22				2022/23		
Gross Exp	Income	Net Exp		Gross Exp	Income	Net Exp
£000	£000	£000		£000	£000	£000
182,872	(68,914)	113,958	City Development & Neighbourhoods	209,128	(81,717)	127,411
103,652	(81,550)	22,102	Housing Revenue Account (HRA)	104,586	(84,451)	20,135
197,086	(97,013)	100,073	Adult Social Care	217,945	(79,780)	138,165
32,537	(33,678)	(1,141)	Health Improvement & Wellbeing	36,720	(38,214)	(1,494)
399,417	(291,310)	108,107	Education & Children's Services	431,969	(314,809)	117,160
62,360	(39,544)	22,816	Corporate Resources & Support	60,982	(17,911)	43,071
77,441	(78,380)	(939)	Housing Benefits	73,038	(73,363)	(325)
(4,151)	(349)	(4,500)	Corporate Items	93	(296)	(203)
-	(517)	(517)	Capital Financing	-	(517)	(517)
1,051,214	**(691,255)**	**359,959**	**Cost of Services**	**1,134,461**	**(691,058)**	**443,403**

Comprehensive Income and Expenditure Statement (continued)

2021/22 Gross Exp £000	2021/22 Income £000	2021/22 Net Exp £000		Note	2022/23 Gross Exp £000	2022/23 Income £000	2022/23 Net Exp £000
		31,677	Other Operating Income and Expenditure	11			(8,228)
		31,600	Financing and Investment Income and Expenditure	12			31,802
		(360,240)	Taxation and Non-Specific Grant Income	13			(367,809)
		62,996	**(Surplus) or Deficit on Provision of Services**	**14**			**99,168**
		(243,445)	(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets	26b			(146,062)
		(335,358)	Remeasurement of the Net Defined Benefit Pension Liability	42			(602,486)
		(578,803)	**Other Comprehensive Income & Expenditure**				**(748,548)**
		(515,807)	**Total Comprehensive Income & Expenditure**				**(649,380)**

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").

2022/23	Note	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
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
31st March 2022 brought forward		**(15,000)**	**(342,013)**	**(357,013)**	**(32,532)**	**-**	**(105,489)**	**(69,121)**	**(564,155)**	**(1,595,034)**	**(2,159,189)**
Total Comprehensive Expenditure and Income		66,653	-	66,653	32,515	-	-	-	**99,168**	(748,548)	**(649,380)**
Adjustments between accounting basis & Funding basis under regulation	9	(26,986)	-	(26,986)	(25,360)	-	(17,633)	43,299	**(26,680)**	26,680	**-**
Transfers (from)/to Earmarked Reserves	10, 25	(39,667)	39,667	-	-	-	-	-	**-**	-	**-**
Balance at 31st March 2023 carried forward		**(15,000)**	**(302,346)**	**(317,346)**	**(25,377)**	**-**	**(123,122)**	**(25,822)**	**(491,667)**	**(2,316,902)**	**(2,808,569)**

Movement in Reserves (continued)

2021/22	Note	General Fund Balance £000	Earmarked Reserves £000	General Fund Total £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31st March 2021 brought forward		**(15,000)**	**(328,212)**	**(343,212)**	**(35,757)**	**-**	**(116,798)**	**(76,031)**	**(571,798)**	**(1,071,582)**	**(1,643,380)**
Total Comprehensive Expenditure and Income		27,417	-	27,417	35,577	-	-	-	**62,994**	(578,803)	**(515,809)**
Adjustments between accounting basis & Funding basis under regulation	9	(41,218)	-	(41,218)	(32,352)	-	11,309	6,910	**(55,351)**	55,351	**-**
Transfers (from)/to Earmarked Reserves	10, 25	13,801	(13,801)	-	-	-	-	-	**-**	-	**-**
Balance at 31st March 2022 carried forward		**(15,000)**	**(342,013)**	**(357,013)**	**(32,532)**	**-**	**(105,489)**	**(69,121)**	**(564,155)**	**(1,595,034)**	**(2,159,189)**

Balance Sheet

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

The top of the Balance Sheet shows the Council's net assets. Assets include property, plant & equipment, intangible assets, amounts owed to the Council and the Council's cash and financial investments. Liabilities include amounts owed by the Council (including conditional funding received), provisions made in respect of future events (see Note 24), the Council's borrowing and the deficit on the Council's pension fund.

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

31st March 2022		Note	31st March 2023
£000			£000
2,682,982	Property, Plant & Equipment	15	2,830,261
132,086	Heritage Assets	16	120,731
1,007	Intangible Assets	17	954
60,000	Long Term Investments	18	70,000
13,003	Long Term Debtors	20	10,220
2,889,078	**Long Term Assets**		**3,032,166**
142,053	Short Term Investments	18	135,895
19	Assets Held For Sale (<1 year)	22	6,583
3,373	Inventories	19	3,158
77,970	Short Term Debtors	20	79,465
155,680	Cash and Cash Equivalents	21	82,773
379,095	**Current Assets**		**307,874**

Balance Sheet (continued)

31st March 2022 £000		Note	31st March 2023 £000
(13,960)	Short Term Borrowing	18	(25,589)
(207,109)	Short Term Creditors	23	(184,262)
(5,825)	Provisions (<1 year)	24	(4,373)
(226,894)	**Current Liabilities**		**(214,224)**
(7,498)	Provisions (>1 year)	24	(6,237)
(180,107)	Long Term Borrowing	18	(180,103)
(683,577)	Other Long Term Liabilities	18, 42A	(125,211)
(10,908)	Capital Grants Receipts in Advance	35	(5,696)
(882,090)	**Long Term Liabilities**		**(317,247)**
2,159,189	**Net Assets**		**2,808,569**
	Represented by:		
564,156	Usable Reserves	25	491,667
1,595,033	Unusable Reserves	26	2,316,902
2,159,189	**Total Reserves**		**2,808,569**

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.

2021/22 £000		Note	2022/23 £000
62,996	Net (surplus) or deficit on the provision of services		99,168
(243,852)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	27	(133,214)
98,994	Adjustments for items included in the net surplus or deficit on the provision of services that are investing or financing activities	27	96,326
(81,862)	**Net cash flows from Operating Activities**		**62,280**
28,640	Net cash flows from Investing Activities	28	21,163
334	Net cash flows from Financing Activities	29	(10,535)
(52,888)	**Net (increase) or decrease in cash and cash equivalents**		**72,908**

102,791	Cash in hand / (overdraft) and cash equivalents at the beginning of the reporting period		155,681
155,679	**Cash in hand /(overdraft) and cash equivalents at the end of the reporting period**	**21**	**82,773**

Explanatory Notes To The Core Financial Statements

Note 1 Accounting Policies

Changes in Accounting Policies

In 2022/23 there are no changes to our accounting policies.

Accounting Policies for 2022/23

1. General Principles

The Statement of Accounts summarises the City Council's transactions for the 2022/23 financial year and its position at the year end of 31 March 2023. 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 2022/23, 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

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.

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.

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:

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).

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.

Other PPE valuations are carried out by the Council's qualified valuers "to exisiting" assets included in the Balance Sheet at current value are revalued annually, with the exception of low value and de minimis assets. Annual valuations of council dwellings are carried out by a specialist external valuer.

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.

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.

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.

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.

Highways Infrastructure Assets

Highways infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, traffic management systems and land which together form a single integrated network.

Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits will flow to the authority and the cost can be measured reliably.

Measurement

Highways infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost.

Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Depreciation

Depreciation is provided on the parts of the highways network infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is charged on a straight-line basis. Annual depreciation is the depreciation amount allocated each year.

Useful lives of the various parts of the highways network are assessed by the Highways Department using industry standards where applicable as follows:

Part of the highways network	Useful life (Years)
Carriageways	25
Footways and cycleways	25
Structures	120
Street Lighting	40
Traffic Management	20

Disposals and derecognition

When a component of the network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet is written off to the ‘Other operating expenditure’ line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also 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).

The written-off amounts of disposals are not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the capital adjustment account from the General Fund Balance in the Movement in Reserves Statement.

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.

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.

Note 1 Accounting Policies (continued)

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.

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. A breakdown of adjustments is included in note 8.

2022/23	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	58,611	68,800	127,411
Housing Revenue Account (HRA)	(2,791)	22,926	20,135
Adult Social Care	134,224	3,941	138,165
Health Improvement & Wellbeing	(2,624)	1,130	(1,494)
Education & Children's Services	77,872	39,288	117,160
Corporate Resources & Support	38,377	4,694	43,071
Housing Benefits	(325)	-	(325)
Corporate Items	7,537	(7,740)	(203)
Capital Financing	(517)	-	(517)
Cost of Services	**310,364**	**133,039**	**443,403**
Other Operating Expenditure	(2,617)	(5,611)	(8,228)
Financing and Investment Income and Expenditure	30,250	1,552	31,802
Taxation and Non-Specific Grant Income	(291,175)	(76,634)	(367,809)
(Surplus) or Deficit on Provision of Services	**46,822**	**52,346**	**99,168**

Movement in Balances	**General Fund / Earmarked Reserves**	**HRA**	**Total**
Opening Balance	(357,013)	(32,532)	(389,545)
Surplus or Deficit in the Year	39,666	7,155	46,821
Closing Balance	**(317,347)**	**(25,377)**	**(342,724)**

Note 2 Expenditure & Funding Analysis (continued)

2021/22	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	56,430	57,528	113,958
Housing Revenue Account (HRA)	(6,154)	28,256	22,102
Adult Social Care	94,665	5,408	100,073
Health Improvement & Wellbeing	(2,433)	1,292	(1,141)
Education & Children's Services	66,231	41,876	108,107
Corporate Resources & Support	16,693	6,123	22,816
Housing Benefits	(939)	-	(939)
Corporate Items	8,189	(12,689)	(4,500)
Capital Financing	(517)	-	(517)
Cost of Services	**232,165**	**127,794**	**359,959**
Other Operating Expenditure	1,478	30,199	31,677
Financing and Investment Income and Expenditure	27,652	3,948	31,600
Taxation and Non-Specific Grant Income	(271,869)	(88,371)	(360,240)
(Surplus) or Deficit on Provision of Services	**(10,574)**	**73,570**	**62,996**

Movement in Balances	General Fund / Earmarked Reserves	HRA	Total
Opening Balance	(343,212)	(35,757)	(378,969)
Surplus or Deficit in the Year	(13,799)	3,225	(10,574)
Closing Balance	**(357,011)**	**(32,532)**	**(389,543)**

Note 3 Accounting Standards Issued But Not Yet Adopted

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (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:

• **IAS 8 (Accounting Estimates)** - amendment to the definitions of accounting estimates.

• **IAS 1 (Accounting Policies)** - requires entities to disclose their material accounting policy information, instead of significant accounting policies.

• **IAS 12 (Income Taxes)** - the amendment places a requirement to recognise deferred tax on particular transactions that, on initial recognition , give rise to equal amounts of taxable and deductible temporary differences.

• **IFRS 3 (Business Combinations)** - updated so that this standard now refers to the 2018 Conceptual Framework instead of the 1989 Framework without significantly changing its requirements.

These changes are not envisaged to have a significant affect on our accounts when implemented from 1st April 2023.

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 £21m.

Note 5 Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Council's Balance Sheet at 31st March 2023 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 - £2.8bn) (Depreciation - £80m) 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 £3.3m for every year that useful lives had to be reduced.
Fair Value Measurements (Surplus Assets - £73m) 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 £3.7m.

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability (Pension liability—£36m) Refer to Note 42.	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Local Government Pension Scheme, administered by Leicestershire County Council with expert advice about the assumptions to be applied. The calculations undertaken by the actuary imply that, in accordance with accounting standards, the net asset on the pension fund is unlikely to be realisable. Therefore this amount has not been recognised in the accounts.	The effects on the net pension liability of changes in individual assumptions can be measured. The actuaries have advised that a 0.1% decrease in the Real Discount Rate would mean a 2.0% increase to the employers liability amounting to approximately £30m. A 0.1% increase in the Pension Increase rate (CPI) would mean a 2.0% increase to the employers' liability amounting to £27m. A 0.1% increase in the projected rate of salary increase would lead to an increased liability of 0.2% or £3m. A 1 year increase in life expectancy would mean an increase to the employers' liability of 4% or £67m. If this assessment changes, the Council's balance sheet would show a net asset of £38m instead of the net liability of £36m on the LGPS Fund.

Note 6 Material Items of Income and Expense

In 2022/23 one of the exhibits at a City Council museum saw a decrease in insurance value, going from £45m to £30m. This is due to the anticipated level of demand for the exhibit not materialising following an auction sale of a similar exhibit at the end of the 21/22 financial year. This revaluation is reflected in Note 16 Heritage Assets.

Note 7 Events After the Balance Sheet Date

There were no significant events at the time of publishing the draft 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.

		Adjustments Between Accounting & Funding Basis				
2022/23	**Net Expenditure on the Comprehensive Income & Expenditure Statement**	**Adjustments for Capital Purposes**	**Adjustments for Defined Benefit Pensions**	**Other Adjustments**	**Total**	**Net Expenditure Charged to the HRA & General Fund Balance**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
City Development & Neighbourhoods	127,411	(60,840)	(8,011)	51	(68,800)	58,611
Housing Revenue Account (HRA)	20,135	(19,522)	(3,759)	355	(22,926)	(2,791)
Adult Social Care	138,165	(324)	(3,608)	(9)	(3,941)	134,224
Health Improvement & Wellbeing	(1,494)	(1)	(1,099)	(30)	(1,130)	(2,624)
Education & Children's Services	117,160	(24,065)	(11,673)	(3,550)	(39,288)	77,872
Corporate Resources & Support	43,071	(336)	(4,454)	96	(4,694)	38,377
Housing Benefits	(325)	-	-	-	-	(325)
Corporate Items	(203)	7,237	242	261	7,740	7,537
Capital Financing	(517)	-	-	-	-	(517)
Cost of Services	**443,403**	**(97,851)**	**(32,362)**	**(2,826)**	**(133,039)**	**310,364**
Other Operating Expenditure	(8,228)	5,611	-	-	5,611	(2,617)
Financing and Investment Income and Expenditure	31,802	14,795	(16,347)	-	(1,552)	30,250
Taxation and Non-Specific Grant Income	(367,809)	52,489	-	24,145	76,634	(291,175)
(Surplus) or Deficit on Provision of Services	**99,168**	**(24,956)**	**(48,709)**	**21,319**	**(52,346)**	**46,822**

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

2021/22	Net Expenditure on the Comprehensive Income & Expenditure Statement	Adjustments Between Accounting & Funding Basis: Adjustments for Capital Purposes	Adjustments for Defined Benefit Pensions	Other Adjustments	Total	Net Expenditure Charged to the HRA & General Fund Balance
	£000	£000	£000	£000	£000	£000
City Development & Neighbourhoods	113,958	(47,689)	(10,147)	308	(57,528)	56,430
Housing Revenue Account (HRA)	22,102	(24,028)	(4,676)	448	(28,256)	(6,154)
Adult Social Care	100,073	(909)	(4,574)	75	(5,408)	94,665
Health Improvement & Wellbeing	(1,141)	(3)	(1,305)	16	(1,292)	(2,433)
Education & Children's Services	108,107	(22,751)	(14,563)	(4,562)	(41,876)	66,231
Corporate Resources & Support	22,816	(365)	(5,888)	130	(6,123)	16,693
Housing Benefits	(939)	-	-	-	-	(939)
Corporate Items	(4,500)	7,928	4,500	261	12,689	8,189
Capital Financing	(517)	-	-	-	-	(517)
Cost of Services	**359,959**	**(87,817)**	**(36,653)**	**(3,324)**	**(127,794)**	**232,165**
Other Operating Expenditure	31,677	(30,199)	-	-	(30,199)	1,478
Financing and Investment Income and Expenditure	31,600	13,814	(17,762)	-	(3,948)	27,652
Taxation and Non-Specific Grant Income	(360,240)	70,465	-	17,906	88,371	(271,869)
(Surplus) or Deficit on Provision of Services	**62,996**	**(33,737)**	**(54,415)**	**14,582**	**(73,570)**	**(10,574)**

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 officer’s 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	2022/23					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movemt in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Account:						
Charges for depreciation, capital expenditure not adding value and amortisation of non-current assets	(48,686)	(33,854)	-	-	-	**82,540**
Revaluation gains/(losses) on Property Plant and Equipment	(8,114)	(1,605)	-	-	-	**9,719**
Capital grants and contributions applied	104,456	24	-	-	-	**(104,480)**
Capital expenditure funded from revenue	262	-	-	-	-	**(262)**
Revenue expenditure funded from capital under statute	(30,461)	(450)	-	-	-	**30,911**
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	(6,307)	(22,576)	-	-	-	**28,883**
Income recognised in respect of donated assets	4	-	-	-	-	**(4)**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Account:						
Statutory provision for the financing of capital investment	13,541	1,254	-	-	-	**(14,795)**
Capital expenditure charged against the General Fund and HRA balances	-	805	-	-	-	**(805)**
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	14,095	21,076	(35,173)	-	-	**(2)**
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	16,892	-	-	**(16,892)**
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(250)	(428)	678	-	-	**-**

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

Adjustment Continued	2022/23 General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movemt in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	(30)	-	-	**30**
Adjustments primarily involving the Major Repairs Reserve:						
Transfer of HRA depreciation costs to Major Repairs Reserve	-	15,558	-	(15,558)	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	15,558	-	**(15,558)**
Adjustments primarily involving the Capital Grants Unapplied Reserve:						
Capital grants recognised in the year and credited to the Capital Grants Unapplied Reserve	53,657	-	-	-	(53,657)	**-**
Application of grants to capital financing credited to the Capital Adjustment Account	(96,956)	-	-	-	96,956	**-**
Adjustments primarily involving the Financial Instruments Adjustments Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	261	360	-	-	-	**(621)**
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(95,279)	(12,176)	-	-	-	**107,455**
Employer's pensions contributions and direct payments to pensioners payable in the year	52,090	6,656	-	-	-	**(58,746)**
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	24,142	-	-	-	-	**(24,142)**
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,090)	(4)	-	-	-	**1,094**
Adjustment primarily involving DSG Deficit:						
School budget deficit transferred from General Fund in accordance with statutory requirements	(2,351)	-	-	-	-	**2,351**
Total Adjustments	**(26,986)**	**(25,360)**	**(17,633)**	**-**	**43,299**	**(26,680)**

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

Adjustment	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movemt in Unusable Reserves £000
	2021/22					
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Account:						
Charges for depreciation, capital expenditure not adding value and amortisation of non-current assets	(56,959)	(42,037)	-	-	-	**98,996**
Revaluation gain/(losses) on Property Plant and Equipment	1,020	(128)	-	-	-	**(892)**
Capital grants and contributions applied	83,924	25	-	-	-	**(83,949)**
Capital expenditure funded from revenue	151	-	-	-	-	**(151)**
Revenue expenditure funded from capital under statute	(14,592)	(489)	-	-	-	**15,081**
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	(30,494)	(19,309)	-	-	-	**49,803**
Income recognised in respect of donated assets		-	-	-	-	**-**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Account:						
Statutory provision for the financing of capital investment	12,867	947	-	-	-	**(13,814)**
Voluntary provision for the financing of capital expenditure	92	-	-	-	-	**(92)**
Capital expenditure charged against the General Fund and HRA balances	-	5,921	-	-	-	**(5,921)**
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	5,373	16,589	(21,962)	-	-	**-**
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	30,942	-	-	**(30,942)**
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(250)	(404)	654	-	-	**-**
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	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movemt in Unusable Reserves £000
	2021/22					
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	(28)	-	-	**28**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(50)	-	-	-	-	**50**
Adjustments primarily involving the Major Repairs Reserve:						
Transfer of HRA depreciation costs to Major Repairs Reserve	-	12,680	-	(12,680)	-	**-**
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	12,680	-	**(12,680)**
Adjustments primarily involving the Capital Grants Unapplied Reserve:						
Capital grants recognised in the year and credited to the Capital Grants Unapplied Reserve	73,937	-	-	-	(73,937)	**-**
Application of grants to capital financing credited to the Capital Adjustment Account	(80,847)	-	-	-	80,847	**-**
Adjustments primarily involving the Financial Instruments Adjustments Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	261	360	-	-	-	**(621)**
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(94,256)	(13,001)	-	-	-	**107,257**
Employer’s pensions contributions and direct payments to pensioners payable in the year	46,436	6,405	-	-	-	**(52,841)**
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	17,906	-	-	-	-	**(17,906)**
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(390)	89	-	-	-	**301**
Adjustment primarily involving Earmarked Reserves:						
Transfers from the General Fund and Housing Revenue Account to Earmarked Reserves	-	-	-	-	-	**-**
Transfers to the General Fund and Housing Revenue Account from Earmarked Reserves	-	-	-	-	-	**-**
Adjustment primarily involving DSG Deficit:						
School budget deficit transferred from General Fund in accordance with statutory requirements	(3,643)	-	-	-	-	**3,643**
Total Adjustments	**(41,217)**	**(32,352)**	**11,309**	**-**	**6,910**	**(55,350)**

Note 10 - Movement in Earmarked Reserves

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

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

2022/23	Balance at 31st March 2022	Transfers In 2022/23	Transfers Out 2022/23	Balance at 31st March 2023
	£000	£000	£000	£000
Ring-fenced Reserves				
DSG not delegated to schools	-	3,422	(3,422)	-
School Balances	30,095	6,317	(5,256)	31,156
School Capital Fund	2,491	31	(105)	2,417
Education & Skills Funding Agency Learning Programmes	971	-	(84)	887
Arts Council National Portfolio Organisation Funding	319	63	(194)	188
NHS Joint Working Projects	25,013	6,457	(12,431)	19,039
Schools Buy Back	1,915	170	(1,214)	871
Business Support Grants	-	-	-	-
Covid-19 Collection Fund Compensation Grants*	13,397	945	(17,622)	(3,280)
Total Ring-fenced Reserves	**74,201**	**17,405**	**(40,328)**	**51,278**
Corporate Reserves				
Capital Programme Reserve	98,834	6,394	(2,185)	103,043
Managed Reserves Strategy	83,270	18,577	(36,019)	65,828
BSF Financing	9,034	229	(103)	9,160
Insurance Fund	11,495	483	(5,819)	6,159
Severance Fund	4,827	-	(104)	4,723
Service Transformation Fund	5,195	-	(25)	5,170
Welfare Reserve	2,551	742	(1,177)	2,116
Anti- Poverty Reserve	3,000	-	(228)	2,772
Other Corporate Reserves	-	-	-	-
Total Corporate Reserves	**218,206**	**26,425**	**(45,659)**	**198,971**
Earmarked Reserves Departmental				
Financial Services Reserve	5,119	1,176	(1,863)	4,432
ICT Development Fund	10,480	-	-	10,480
Elections Reserve	2,440	-	-	2,440
Housing	2,802	3,180	(1,377)	4,605
City Development (Excl Housing)	12,672	5,687	(4,566)	13,793
Social Care Reserve	9,998	6,720	(5,780)	10,938
Health & Wellbeing Division	5,631	444	(1,130)	4,945
Other Departmental Reserves	464	-	-	464
Total Other Reserves	**49,606**	**17,207**	**(14,716)**	**52,097**
Total Earmarked Reserves	**342,013**	**61,037**	**(100,703)**	**302,346**

*Covid-19 Collection Fund Compensation/Grants reserve is showing a negative balance due to a shortfall in budgeted government grant in relation to the collection fund, which will be resolved in future years through the collection fund surplus.

Note 10 - Movement in Earmarked Reserves (continued)

2021/22	Balance at 31st March 2021	Transfers In 2021/22	Transfers Out 2021/22	Balance at 31st March 2022
	£000	£000	£000	£000
Ring-fenced Reserves				
DSG not delegated to schools	1,433	-	(1,433)	-
School Balances	24,108	8,937	(2,950)	30,095
School Capital Fund	2,753	3	(265)	2,491
Education & Skills Funding Agency Learning Programmes	1,112	108	(249)	971
Arts Council National Portfolio Organisation Funding	845	-	(526)	319
NHS Joint Working Projects	9,420	15,866	(273)	25,013
Schools Buy Back	2,429	-	(514)	1,915
Business Support Grants	2,722	-	(2,722)	-
Covid-19 Collection Fund Compensation Grants*	25,720	14,752	(27,075)	13,397
Total Ring-fenced Reserves	**70,542**	**39,666**	**(36,007)**	**74,201**
Corporate Reserves				
Capital Programme Reserve	97,588	2,497	(1,251)	98,834
Managed Reserves Strategy	70,261	30,310	(17,301)	83,270
BSF Financing	8,638	1,457	(1,061)	9,034
Insurance Fund	10,608	887	-	11,495
Severance Fund	4,827	-	-	4,827
Service Transformation Fund	5,867	-	(672)	5,195
Welfare Reserve	3,429	428	(1,306)	2,551
Anti- Poverty Reserve	3,000	-	-	3,000
Other Corporate Reserves	973	-	(973)	-
Total Corporate Reserves	**205,190**	**35,579**	**(22,563)**	**218,206**
Earmarked Reserves Departmental				
Financial Services Reserve	3,670	2,815	(1,366)	5,119
ICT Development Fund	8,436	2,163	(119)	10,480
Elections Reserve	3,477	323	(1,360)	2,440
Housing	2,358	723	(279)	2,802
City Development (Excl Housing)	11,302	3,432	(2,062)	12,672
Social Care Reserve	18,482	4,480	(12,964)	9,998
Health & Wellbeing Division	4,291	1,480	(140)	5,631
Other Departmental Reserves	464	-	-	464
Total Other Reserves	**52,480**	**15,416**	**(18,290)**	**49,606**
Total Earmarked Reserves	**328,212**	**90,661**	**(76,860)**	**342,013**

Note 11 Other Operating Income and Expenditure

	2021/22	2022/23
	£000	£000
Payments to the government Housing Capital Receipts Pool	1,703	-
Total (gains)/losses on the disposal of non-current assets	28,546	(5,610)
Other operating income and expenditure	1,428	(2,618)
Total	**31,677**	**(8,228)**

Note 12 Financing and Investment Income & Expenditure

	2021/22	2022/23
	£000	£000
Interest payable and similar charges	15,834	19,825
Pensions interest cost and expected return on pensions assets	17,762	16,347
Interest receivable and similar income	(1,996)	(4,370)
Total	**31,600**	**31,802**

Note 13 Taxation and Non-Specific Grant Income & Expenditure

	2021/22	2022/23
	£000	£000
Council Tax income	(128,881)	(135,778)
Non-domestic rates	(90,577)	(95,892)
Non-ringfenced government grant Income	(77,921)	(84,497)
Non-ringfenced government grant Expenditure (Note 1)	7,603	851
Capital grants and contributions	(70,464)	(52,489)
Donated Assets	-	(4)
Total	**(360,240)**	**(367,809)**

(Note 1) This line is Covid-19 related grant expenditure in the form of Business Support and Local Council Tax Support 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.

"Other service expenses" , "Depreciation ,amortisation , impairment" , "Fees, charges and other service income" , "Government Grants & Contributions" lines for 2021/22 have been adjusted to correctly classify income and expenditure by nature.

	Restated 2021/22	2022/23
	£000	£000
Expenditure		
Employee Benefit Expenses	436,976	457,559
Other Services expenses	526,699	588,144
Depreciation, amortisation, impairment	99,290	90,607
Interest Payments	33,596	36,172
Precepts & Levies	88	91
Payments to Housing Capital Receipts pool	1,703	-
(Gain)/ Loss on the Disposal of Assets	28,546	(5,611)
Total Expenditure	**1,126,898**	**1,166,962**
Income		
Fees, charges and other service income	(164,658)	(183,488)
Interest & Investment Income	(1,996)	(4,370)
Income from Council Tax, non domestic rates	(219,457)	(231,670)
Government grants & contributions	(677,793)	(648,266)
Total Income	**(1,063,904)**	**(1,067,794)**
(Surplus) or Deficit on Provision of Services	**62,994**	**99,168**

Note 15 Property, Plant and Equipment - Movement on Balances in 2022/23

The first table in this note illustrates the change in the value of the Council's property, plant and equipment assets during 2022/23. The following tables provide additional detail on the basis for valuations of these assets and future capital expenditure already committed.

Movements on Balances in 2022/23	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	Service Concession Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
As at 1st April 2022	1,161,367	1,153,383	76,922	1,269	2,580	76,803	8,452	**2,480,776**	149,461
Additions	31,030	35,645	8,965	-	1,062	1,373	5,960	**84,035**	961
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	78,607	34,486	2,121	124	31	1,564	-	**116,933**	9,605
Revaluation Increases/(Decreases) not recognised in the Revaluation Reserve	(18,296)	(11,154)	(336)	-	(1,022)	(5,060)	(87)	**(35,955)**	(9)
De-recognition – disposals	(22,794)	(853)	(2,455)	-	-	(21)	-	**(26,123)**	-
De-recognition – other								**-**	
Assets reclassified (to)/from Held for Sale	-	(4,486)	-	-	-	(1,680)	-	**(6,166)**	-
Asset reclassified (other)	-	12,873	-	-	-	(152)	(12,721)	**-**	-
Other movements in cost or valuation								**-**	
As at 31st March 2023	**1,229,914**	**1,219,894**	**85,217**	**1,393**	**2,651**	**72,827**	**1,604**	**2,613,500**	**160,018**

Note 15 Property, Plant and Equipment - Movement on Balances in 2022/23 (continued)

Movements on Balances in 2022/23	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	Service Concession Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Accumulated Depreciation & Impairment									
As at 1st April 2022	-	(28)	(29,481)	(255)	-	-	-	**(29,764)**	(7,540)
Depreciation Charge	(12,534)	(27,694)	(7,394)	(17)	(37)	(64)	-	**(47,740)**	(5,882)
Depreciation written out to the Revaluation Reserve	12,318	24,740	3,512	-	34	-	-	**40,604**	4,410
Depreciation written out to the Surplus/Deficit on the provision of services	-	2,690	-	-	-	56	-	**2,746**	-
De-recognition – disposals	217	27	2,449	-	-	1	-	**2,694**	-
As at 31st March 2023	**1**	**(265)**	**(30,914)**	**(272)**	**(3)**	**(7)**	**-**	**(31,460)**	**(9,012)**
Net Book Value as at 31st March 2023	**1,229,915**	**1,219,629**	**54,303**	**1,121**	**2,648**	**72,820**	**1,604**	**2,582,040**	**151,006**
1st April 2022	1,161,367	1,153,355	47,441	1,014	2,580	76,803	8,452	**2,451,012**	141,921

Note 15 Property, Plant and Equipment - Movement on Balances in 2021/22

Comparative Movements 21/22	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	Service Concession Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
As at 1st April 2021	1,062,545	1,083,679	106,720	1,322	2,239	68,829	5,214	**2,330,548**	145,285
Additions	49,447	41,026	6,763	-	997	1,909	8,616	**108,758**	540
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	99,506	65,112	(792)	(11)	628	150	-	**164,593**	9,254
Revaluation Increases/(Decreases) not recognised in the Revaluation Reserve	(28,967)	(13,341)	(220)	(42)	(996)	(536)	(162)	**(44,264)**	(14)
De-recognition – disposals	(19,492)	(25,068)	(35,549)	-	(288)	(378)	-	**(80,775)**	(5,604)
Assets reclassified (to)/from Held for Sale	-	1,916	-	-	-	-	-	**1,916**	-
Asset reclassified (other)	(1,672)	59	-	-	-	6,829	(5,216)	**-**	-
As at 31st March 2022	**1,161,367**	**1,153,383**	**76,922**	**1,269**	**2,580**	**76,803**	**8,452**	**2,480,776**	**149,461**

Note 15 Property, Plant and Equipment - Movement on Balances in 2021/22 (continued)

Comparative Movements 21/22	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	Service Concession Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Accumulated Depreciation & Impairment									
As at 1st April 2021	-	(16)	(56,306)	(238)	-	-	-	**(56,560)**	(11,027)
Depreciation Charge	(11,456)	(25,223)	(8,934)	(17)	(39)	(79)	-	**(45,748)**	(6,191)
Depreciation written out to the Revaluation Reserve	11,273	23,137	3,625	-	34	30	-	**38,099**	4,074
Depreciation written out to the Surplus/Deficit on the provision of services	-	1,509	-	-	-	49	-	**1,558**	-
De-recognition – disposals	183	565	32,134	-	5	-	-	**32,887**	5,604
As at 31st March 2022	**-**	**(28)**	**(29,481)**	**(255)**	**-**	**-**	**-**	**(29,764)**	**(7,540)**
Net Book Value as at 31st March 2022	**1,161,367**	**1,153,355**	**47,441**	**1,014**	**2,580**	**76,803**	**8,452**	**2,451,012**	**141,921**
1st April 2021	1,062,545	1,083,662	50,414	1,085	2,239	68,830	5,214	**2,273,989**	134,258

Note 15 Property, Plant and Equipment - Highways Infrastructure Assets

Highways Infrastructure Assets - Movements on balances

In accordance with the temporary relief offered by the Update to the Code on infrastructure assets, this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has determined in accordance with Regulation [30M England] of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

	2021/22	2022/23
	£000	£000
Net book value (modified historical cost)		
As at 1 April	213,650	231,970
Additions	28,336	27,428
Derecognition	-	(1,186)
Depreciation	(10,016)	(9,991)
Net book value at 31 March	**231,970**	**248,221**

Total PPE Assets

	2021/22	2022/23
	£000	£000
Highways Infrastructure assets	231,970	248,221
Other PPE assets	2,451,012	2,582,040
Total PPE assets	**2,682,982**	**2,830,261**

Note 15 Property, Plant and Equipment - Capital Commitments

At 31st March 2023, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2022/23. Similar commitments at 31st March 2022 were £36.3m. The significant commitments are:

Contract for Capital Investment	Period	£000
Pioneer Park	2023-24	15,290
Electric Bus Investment	2023-24	5,024
Leicester Station	2023-24	4,052
Connecting Leicester	2023-24	2,705
Waterside	2023-24	2,667
Jewry Wall Museum Improvements	2024-25	1,844
Greener Homes	2023-24	1,750
Tower Block Sprinkler Systems	2023-24	786
Expansion of Children's Homes	2023-24	588
Council Housing - External Property Works	2023-24	523
Highways Maintenance	2023-24	507
Goscote House Demolition	2023-24	454
Total		**36,190**

Note 15 Property, Plant and Equipment - Revaluations

2022/23 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	-	2,261	58,513	3	40	-	1,604	**62,421**
Valued at fair or nominal value as at:								
Pre 1st April 2012	-	161	-	-	-	-	-	**161**
1st April 2012	-	-	-	-	-	-	-	**-**
1st April 2013	-	1	-	-	-	-	-	**1**
1st April 2014	-	2	-	686	1	-	-	**689**
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	-	25	-	-	14	-	-	**39**
Valued @ 31st March 2022	-	7,406	-	72	460	792	-	**8,730**
Valued @ 31st March 2023	1,229,914	1,210,003	26,704	632	2,055	72,000	-	**2,541,308**
Total	**1,229,914**	**1,219,894**	**85,217**	**1,393**	**2,651**	**72,827**	**1,604**	**2,613,500**

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 at least every 5 years with the majority of assets being valued 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 valued as at the 31st March of the financial year using forecast indices, if appropriate, to ensure that the valuation is still correct at the financial year end.

Annual valuations of council dwellings are carried out by a specialist external valuer and are based on guidance issued by the Ministry of Housing, Communities and Local Government.

All other valuations are carried out internally by an accredited valuer and chartered member of the Royal Institution of Chartered Surveyors (RICS), in accordance with the methodologies and bases for estimation set out in the professional standards of RICS.

Valuations of the majority of vehicles, plant, equipment and furniture, and of infrastructure, are based on historical cost.

Note 16 Heritage Assets

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

The following tables show the movement in the value of Heritage assets during 2022/23 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, reflecting the replacement cost of these assets. Additions to the exhibits collection are initially included at historical cost and are then included as part of the insurance revaluation.

One of the exhibits at a City Council museum saw a decrease in insurance value, going from £45m to £30m. This is due to the level of demand not increasing in line with expectations in the market for exhibits of a similar nature. This decrease is reflected in the table on the following page.

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 2022/23	Buildings	Museum Exhibits	Statues & Monuments	Total Assets
	£000	£000	£000	£000
Cost or Valuation				
At 1st April 2022	2,598	123,612	5,876	132,086
Additions	-	24	-	24
Impairment losses recognised in surplus/deficit on the provision of services	-	(19)	-	(19)
Disposals	-	-	-	-
Revaluations	10	(11,370)	-	(11,360)
As at 31st March 2023	**2,608**	**112,247**	**5,876**	**120,731**

2021/22 Comparative Movements	Buildings	Museum Exhibits	Statues & Monuments	Total Assets
	£000	£000	£000	£000
Cost or Valuation				
At 1st April 2021	2,487	83,100	5,876	91,463
				-
Additions	-	45	-	45
Impairment losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	-	(39)	-	(39)
Disposals	-	(49)	-	(49)
Revaluations	111	40,555	-	40,666
As at 31st March 2022	**2,598**	**123,612**	**5,876**	**132,086**

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.

	2021/22	2022/23
	£000	£000
Balance at 1st April		
Gross Carrying Amounts	4,680	4,370
Accumulated Amortisation	(3,158)	(3,363)
Net carrying amount at 1st April	**1,522**	**1,007**
Additions (Purchases)	370	202
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	(370)	-
Disposals in year (gross)	(310)	-
Disposals in year (amortisation)	310	-
Amortisation applied in Year	(515)	(255)
Gross Carrying Amount at 31st March	4,370	4,572
Accumulated Amortisation	(3,363)	(3,618)
Net Carrying Amount at 31st March	**1,007**	**954**

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.

Some balance sheet categories, for example current debtors, include both items which are financial instruments and items which are not financial instruments. The tables below shows the carrying values of financial instruments included within the various lines of the council's balance sheet.

The following categories of financial assets are carried in the Balance Sheet:

Financial Assets	Long Term		Short Term	
	31st March 2022	31st March 2023	31st March 2022	31st March 2023
	£000	£000	£000	£000
Measured at Amortised cost:				
- Principal at amortised cost	60,000	70,000	133,000	127,300
- Accrued interest	-	-	405	1,599
Measured at fair value	-	-	8,648	6,997
Total Investments	**60,000**	**70,000**	**142,053**	**135,896**
Measured at Amortised cost:				
- Cash (including bank accounts)	-	-	35,680	49,323
Measured at fair value				
- Cash equivalents	-	-	120,000	33,450
Total Cash and Cash Equivalents	**-**	**-**	**155,680**	**82,773**
Measured at Amortised cost:				
- Trade receivables and other debtors	4,403	4,121	47,001	42,508
- Loans made for service purposes	8,600	6,099	416	354
Included in Debtors	**13,003**	**10,220**	**47,417**	**42,862**
Total Financial Assets	**73,003**	**80,220**	**345,150**	**261,531**

Note 18a Financial Instruments - Classifications (continued)

The following categories of financial liabilities are carried in the Balance Sheet:

Financial Liabilities	Long Term		Short Term	
	31st March 2022	31st March 2023	31st March 2022	31st March 2023
	£000	£000	£000	£000
Measured at Amortised cost:				
- Principal sum borrowed	179,491	179,491	12,475	23,975
- Accrued interest	-	-	1,485	1,614
- EIR adjustments	616	612	-	-
Total Borrowing	**180,107**	**180,103**	**13,960**	**25,589**
Measured at Amortised cost:				
- Finance leases	7,930	7,715	-	-
- PFI arrangements	64,736	61,265	-	-
- Transferred debt liability	20,585	19,723	-	-
- Other	102	89	-	-
Included in Other Long-term Liabilities	**93,353**	**88,792**	**-**	**-**
Measured at Amortised cost:				
- Finance leases	-	-	188	216
- PFI arrangements	-	-	5,187	4,396
- Transferred debt liability	-	-	975	975
- Trade payables and other creditors	-	-	72,522	77,654
Included in Short term Creditors	**-**	**-**	**78,872**	**83,241**
Total Financial Liabilities	**273,460**	**268,895**	**92,832**	**108,830**

Note 18b Financial Instruments - Gains and Losses

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

	Financial Liabilities	Financial Assets			
	Amortised Cost	Amortised Cost	Other	2022/23 Total	2021/22 Total
	£000	£000	£000	£000	£000
Financial assets measured at fair value through profit or loss	-	-	1,651	1,651	(1,186)
Financial assets measured at amortised cost	-	(104)	-	(104)	(140)
Net (gains)/losses	**-**	**(104)**	**1,651**	**1,547**	**(1,326)**
Interest expense	19,830	-	-	19,830	15,834
Interest payable and similar charges	**19,830**	**-**	**-**	**19,830**	**15,834**
Interest income	-	(2,359)	(1,726)	(4,085)	(1,956)
Dividends	-	-	(290)	(290)	(41)
Interest and investment income	**-**	**(2,359)**	**(2,016)**	**(4,375)**	**(1,997)**
Net (Gain)/Loss for the Year	**19,830**	**(2,463)**	**(365)**	**17,002**	**12,511**

Note 18c Financial Instruments - Fair Values

The majority of the council's financial instruments are held at amortised cost with the exception of some financial assets which are carried in the balance sheet at fair value.

When considering the fair value of financial instruments, the authority categorises inputs to valuations within the following hierarchy :

- 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 Money Market funds 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 following tables show amounts held for financial instruments as at 31st March 2023 and their corresponding fair values.

The fair value of financial liabilities held at amortised cost are broadly in line with their balance sheet carrying amount because the money was borrowed when interest rates were at a similar rate to what they are now.

		31st March 2022		31st March 2023	
	Fair Value Level	Balance Sheet £000	Fair Value £000	Balance Sheet £000	Fair Value £000
Financial assets held at fair value:					
Cash equivalents - Money market funds	1	120,000	120,000	33,450	33,450
Property Unit Trusts	2	8,648	8,648	6,997	6,997
Financial assets held at amortised cost:					
Long-term loans to local authorities	2	60,000	58,896	70,000	67,515
Long-term loans to companies	3	7,613	7,613	5,142	5,142
Finance Lease	3	987	987	957	957
Total		**197,248**	**196,144**	**116,546**	**114,061**
Assets for which fair value is not disclosed *		220,905	-	225,204	-
Total Financial Assets		**418,153**	**196,144**	**341,750**	**114,061**
Recorded on balance sheet as:					
Long-term debtors		13,003		10,220	
Long-term investments		60,000		70,000	
Short-term debtors		47,417		42,862	
Short-term investments		142,053		135,896	
Cash and cash equivalents		155,680		82,773	
Total Financial Assets		**418,153**		**341,751**	

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

Note 18c Financial Instruments - Fair Values (continued)

		31st March 2022		31st March 2023	
	Fair Value Level	Balance Sheet £000	Fair Value £000	Balance Sheet £000	Fair Value £000
Financial liabilities held at amortised cost:					
Long-term loans from PWLB	2	134,491	171,657	134,491	118,891
Long-term LOBO loans	2	20,616	30,327	20,612	23,327
Other long-term loans	2	25,000	31,473	25,000	23,536
Lease payables and PFI liabilities	2	78,042	114,301	73,591	91,376
Transferred debt liabilities	2	21,560	29,740	20,698	22,600
Total		**279,709**	**377,498**	**274,392**	**279,730**
Liabilities for which fair value is not disclosed *		86,583		103,332	
Total Financial Liabilities		**366,292**	**377,498**	**377,724**	**279,730**
Recorded on balance sheet as:					
Short-term creditors		78,872		83,241	
Short-term borrowing		13,960		25,589	
Long-term creditors		-		-	
Long-term borrowing		180,107		180,103	
Other long-term liabilities		93,353		88,792	
Total Financial Liabilities		**366,292**		**377,725**	

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

Note 18d 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.

a) Credit Risk

Credit risk is the risk that amounts due to the council may not be received. Amounts due to the council from financial assets can arise either from loans and investments made, or from income receivable for goods or services provided by the council.

The majority of the council's loans and investments are made for treasury management purposes; the parameters within which these investments are made are set out within the Council's approved Treasury Management Strategy. Credit risk is minimised through the strategy as it stipulates a number of controls for different investment types such as limits on the maximum sum to be invested, the investment period and required independent credit ratings institutions must hold.

The Council's maximum exposure to credit risk in relation to its investments in commercial institutions (banks and building societies) of £33m as at 31st March 2023 (£125m as at 31st March 2022) 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. The Council's exposure to credit risk in relation to its investments in other local authorities is £197m (£188m as at 31st March 2022). Such investments are assessed to be virtually risk free. A risk of non-recovery applies to all of the Council's deposits, but there was no evidence at 31st March 2023 or subsequently that this was likely to crystallise.

The financial standing of remaining long-term loan recipients and finance lessees are checked before they 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 operates an active debt recovery policy, to ensure that amounts due are collected as promptly as possible. Trade debtors are carried in the council's balance sheet net of an impairment provision, which is estimated on the basis of known factors affecting individual debtors and previous history of collectability for different types of debtor. This represents the extent to which the council estimates that the debt may be uncollectable (this is known as the expected credit loss) and a provision of £19.4m was made in in 2022/23 (£19.1m in 2021/22). 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.

Note 18d 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 included to the right

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. In 2022/23 due to increases in interest rates, it is becoming more likely that the lender could exercise this option and the Council is likely to repay these loans. Therefore in the 22/23 column in the tables above these are shown as maturing on the next option date.

Time to maturity (years)	31st March 2022 £000	31st March 2023 £000
Not over 1	19,032	30,250
Over 1 but not over 2	4,249	25,099
Over 2 but not over 5	14,833	15,629
Over 5 but not over 10	25,942	26,971
Over 10 but not over 20	34,528	27,772
Over 20 but not over 30	75,393	135,526
Over 30	119,692	38,734
Total	**293,669**	**299,981**

Note 18d 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 is 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 is 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	417
Increase in interest receivable on short term investments	36
Increase in interest payable on variable rate loans	(240)
Impact on Surplus or Deficit on the Provision of Services	**213**
Decrease in fair value of available for sale financial assets	0
Impact on Comprehensive Income and Expenditure	**0**
Decrease in fair value of loans and receivables *	936
Decrease in fair value of fixed rate borrowings/liabilities *	31,833

*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 19 Inventories

The value of inventories as at 31st March :

	Balance at 31st March 2022 £000	Balance at 31st March 2023 £000
Consumable Stores	368	415
Maintenance Materials	2,627	2,494
Work in Progress	378	249
Total	**3,373**	**3,158**

Note 20 Debtors

Long-Term Debtors

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

	Balance at 31st March 2022	Balance at 31st March 2023
	£000	£000
PFI Lease	3,031	3,215
Other Long Term Debtors	9,972	7,005
Total	**13,003**	**10,220**

Short-Term Debtors

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

	Balance at 31st March 2022	Balance at 31st March 2023
	£000	£000
Central Government bodies	20,969	14,903
Other Local Authorities	4,595	6,429
NHS bodies	8,293	5,794
Public Corporations and Trading Funds	1	-
Other Entities and Individuals	20,634	25,740
Payments in Advance	7,362	8,558
Local Taxation (Council Tax & Business Rates)	16,116	18,041
Total	**77,970**	**79,465**

Note 21 Cash and Cash Equivalents

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

	Balance at 31st March 2022	Balance at 31st March 2023
	£000	£000
Cash held by the Council	10	21
Bank	35,670	49,302
Short-term deposits	120,000	33,450
Total Cash and Cash Equivalents	**155,680**	**82,773**

Note 22 Assets Held for Sale

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

	2021/22	2022/23
	£000	£000
Balance at 1st April	1,847	19
Property, Plant and Equipment newly classified as held for sale	-	6,183
Property, Plant and Equipment declassified as held for sale	(1,916)	(17)
Assets Sold	-	-
Other Adjustments	88	398
Balance at 31st March	**19**	**6,583**

Note 23 Creditors

The value of creditors as at 31st March:

	Balance at 31st March 2022	Balance at 31st March 2023
	£000	£000
Central Government bodies	33,666	45,160
Other Local Authorities	9,233	8,435
NHS bodies	298	812
Public Corporations and Trading Funds	-	562
Other Entities and Individuals	81,260	86,315
Receipts in Advance	82,652	42,978
Total	**207,109**	**184,262**

Note 24 Provisions

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

	Insurance	Housing Benefits	s117 Mental Health Act	Housing	Business Rate Appeals	Total
	£000	£000	£000	£000	£000	£000
Balance at 1st April 2021	**3,307**	**657**	**39**	**773**	**9,446**	**14,222**
Net Movement (additions less amounts used)	(15)	-	-	(337)	(547)	(899)
Balance at 1st April 2022	**3,292**	**657**	**39**	**436**	**8,899**	**13,323**
2022/23 Provisions/(Reductions)	3,062	-	(39)	49	(572)	2,500
Amounts used in 2022/23	(2,742)	-	-	-	(2,471)	(5,213)
Balance at 31st March 2023	**3,612**	**657**	**-**	**485**	**5,856**	**10,610**

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 £3.6m is held as a provision, being the amount that the Council estimates will be required to meet claims already received. A further sum of £6.2m 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.

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 £12m (Council share of £5.9m).

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 £000	Movement £000	Closing Balance £000	Supporting Note
General Fund	(15,000)	-	(15,000)	MIRS and Narrative Statement
Earmarked Reserves	(342,013)	39,667	(302,346)	Note 10 and Narrative Statement
Total General Fund Reserves	**(357,013)**	**39,667**	**(317,346)**	
Housing Revenue Account	(32,532)	7,155	(25,377)	HRA Statements and Notes
Major Repairs Reserve	-	-	-	Note 9 and HRA Note 13
Capital Receipts Reserve	(105,490)	(17,632)	(123,122)	Note 9 and HRA Note 13
Capital Grants Unapplied Reserve	(69,121)	43,299	(25,822)	Note 9 and HRA Note 13
Total Usable Reserves	**(564,156)**	**72,489**	**(491,667)**	

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").

	Restated 31st March 2022	31st March 2023
	£000	£000
Revaluation Reserve	(1,195,684)	(1,316,634)
Capital Adjustment Account	(1,035,385)	(1,061,239)
Financial Instruments Adjustment Account	19,047	18,426
Deferred Capital Receipts Reserve	(1,045)	(1,015)
Pensions Reserve	589,789	36,012
Collection Fund Adjustment Account	15,723	(8,419)
Accumulated Absences Account	8,879	9,973
Dedicated Schools Grant Adjustment Account	3,643	5,994
Total Unusable Reserves	**(1,595,033)**	**(2,316,902)**

Note 26b Unusable Reserves (continued)

Revaluation Reserve

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

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

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

	2021/22	2022/23
	£000	£000
Balance at 1st April	**(987,052)**	**(1,195,684)**
Upward revaluation of assets	(271,282)	(189,315)
Downward revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services	27,838	43,254
(Surplus) or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**(243,444)**	**(146,061)**
Difference between fair value depreciation and historical cost depreciation	21,595	24,437
Accumulated gains on assets sold or scrapped	13,217	674
Balance at 31st March	**(1,195,684)**	**(1,316,634)**

Note 26c Unusable Reserves (continued)

Capital Adjustment Account

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

The account contains revaluation gains accumulated on property, plant and equipment, heritage assets, assets held for sale and intangible assets before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains. The table below provides details of the source of all the transactions posted to the account.

	2021/22	2022/23
	£000	£000
Balance at 1st April	**(1,016,011)**	**(1,035,385)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation & impairment	98,482	82,285
Revaluation (gain)/loss on Property, Plant and Equipment	(892)	9,719
Amortisation of intangible assets	515	255
Revenue expenditure funded from capital under statute	15,081	30,911
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	49,803	28,883
	(853,022)	**(883,332)**
Adjusting amounts written out of the Revaluation Reserve	(34,814)	(25,111)
Net written out amount of the cost of non-current assets consumed in the year	**(887,836)**	**(908,443)**
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	(30,942)	(16,892)
Use of the Major Repairs Reserve to finance new capital expenditure	(12,680)	(15,558)
Capital Grants, Contributions & Donated Assets credited to the Income and Expenditure Statement that have been applied to capital financing	(83,949)	(104,484)
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(13,814)	(14,795)
Voluntary provision for the financing of capital investment charged against the General Fund and HRA balances	(92)	-
Capital expenditure charged against the General Fund and HRA balances	(6,072)	(1,067)
Balance at 31st March	**(1,035,385)**	**(1,061,239)**

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.

	2021/22 £000	2022/23 £000
Balance at 1st April	**19,668**	**19,047**
Proportion of discounts incurred in previous financial years to be credited to the General Fund Balance in accordance with statutory requirements	(621)	(621)
Balance at 31st March	**19,047**	**18,426**
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)	(621)

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.

	2021/22	2022/23
	£000	£000
Balance at 1st April	**(1,123)**	**(1,045)**
Transfer of deferred sale proceeds to the DCCR	50	-
Transfer to the Capital Receipts Reserve upon receipt of cash	28	30
Balance at 31st March	**(1,045)**	**(1,015)**

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 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.

	2021/22	2022/23
	£000	£000
Balance at 1st April	**870,731**	**589,789**
Remeasurement of the Net Defined Benefit Liability	(335,358)	(602,486)
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	107,257	107,455
Employer's pensions contributions and direct payments to pensioners payable in the year	(52,841)	(58,746)
Balance at 31st March	**589,789**	**36,012**

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.

	2021/22	2022/23
	£000	£000
Balance at 1st April	**33,630**	**15,723**
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	(17,907)	(24,142)
Balance at 31st March	**15,723**	**(8,419)**

	2021/22	2022/23
	£000	£000
Balance at 1st April	**8,577**	**8,879**
Settlement or cancellation of accrual made at the end of the preceding year	(8,577)	(8,879)
Amounts accrued at the end of the current year	8,879	9,973
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	**302**	**1,094**
Balance at 31st March	**8,879**	**9,973**

Accumulated Absences Account

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

Note 26i Unusable Reserves (continued)

Dedicated Schools Grant Adjustment Account

The Dedicated Schools Grant adjustment account holds accumulated deficits relating to the schools budget. Where an authority has incurred a deficit between the 1st April 2020 to 31st March 2023 Local Authorities are required to reverse this out to an unusable reserve as part of a temporary statutory override. The Council is unable to charge these deficits to the General Fund.

	2021/22	2022/23
	£000	£000
Balance at 1st April	**-**	**3,643**
School budget deficit transferred from General Fund in accordance with statutory requirements	3,643	2,351
Balance at 31st March	**3,643**	**5,994**

Note 27 Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2021/22	2022/23
	£000	£000
Interest received	(1,996)	(4,370)
Interest paid	15,834	16,347
Net interest	**13,838**	**11,977**

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

	2021/22	2022/23
	£000	£000
Depreciation	(55,764)	(57,731)
Downward revaluations, impairment losses and reversal of prior year impairments	(44,673)	(35,497)
Amortisation	(515)	(255)
Increase / (decrease) in creditors	(27,643)	28,630
(Increase) / decrease in debtors	(17,108)	1,336
(Increase) / decrease in inventories	562	(215)
Movement in pension liability	(54,416)	(48,709)
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(46,379)	(21,834)
Other non-cash items charged to the net surplus or deficit on the provision of services	2,084	1,061
	(243,852)	**(133,214)**

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:

	2021/22	2022/23
	£000	£000
Capital Grants credited to surplus or deficit on the provision of services	77,032	61,154
Proceeds from the sale of property plant and equipment, investment property and intangible assets	21,962	35,172
	98,994	**96,326**

Note 28 Cash Flow Statement - Investing Activities

	2021/22	2022/23
	£000	£000
Purchase of property, plant and equipment and intangible assets	136,969	110,729
Purchase of short-term and long-term investments	170,000	162,800
Proceeds from sale of property, plant and equipment and intangible assets	(21,962)	(35,172)
Proceeds from short-term and long-term investments	(174,999)	(158,499)
Other receipts from investing activities	(81,368)	(58,695)
Net Cash Flows from Investing Activities	**28,640**	**21,163**

Note 29 Cash Flow Statement - Financing Activities

	2021/22	2022/23
	£000	£000
Cash receipts of short and long-term borrowing	(31,950)	(49,350)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and PFI contracts	540	961
Repayments of short and long-term borrowing	31,744	37,854
Net Cash Flows from Financing Activities	**334**	**(10,535)**

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 Integrated Care Board (ICB) in the areas covered by the councils. Leicester City Council acts as the host partner.

The City Council contributed £0.73m (Adult Social Care contribution of £0.65m and Education contribution of £0.08m) to the pool during 2022/23 (£0.71m in 2021/22 of which Adult Social Care contributed £0.63m 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.

As host partner Leicester City Council commissions the goods and services, with each partner then accounting for their own share of these goods and services, as set out in the table on the righthand side.

	2021/22	2022/23
	£000	£000
Funding provided to the pooled budget:		
Leicester City Council	712	733
Leicestershire County Council	1,232	1,463
Rutland County Council	72	78
Leicester City CCG	1,387	-
East Leicestershire and Rutland CCG	1,473	-
West Leicestershire CCG	1,707	-
NHS Leicester, Leicestershire & Rutland ICB	-	4,778
Total Funding provided to the pooled budget	**6,583**	**7,052**
Total Expenditure met from the pooled budget	**6,583**	**7,052**

*Integrated Care Boards (ICB's) replaced Clinical Commissioning Groups (CCG's) from 1st July 2022.

Note 30 Pooled Budgets (continued)

Better Care Fund

This is an arrangement between Leicester City Council and NHS Leicester, Leicestershire and Rutland integrated care board (ICB) 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 ICB and LCC establish a pooled fund/budget for this purpose. The ICB acts as the host partner.

The City Council contributed £20.3m to the pool in 22/23 (£18.4m Adult Social Care and £1.9m City Development and Neighbourhoods). In 21/22 this was £19.8m (£17.9m Adult Social Care and £1.9m City Development and Neighbourhood). This expenditure is also included in those respective lines in the Comprehensive Income and Expenditure statement.

	2021/22	2022/23
	£000	£000
Income		
Revenue		
ICB Minimum Fund	26,617	28,136
Improved Better Care Fund (iBCF)	17,040	17,556
Additional ICB Contribution	15,984	-
Total Revenue Income	**59,641**	**45,692**
Capital-Disabled Facilities Grant	2,714	2,714
Total Income	**62,355**	**48,406**
Expenditure		
Revenue		
Actual Spend incurred by LCC managed schemes incl IBCF	34,622	36,198
Actual spend incurred by LCCCG & LPT (Leicestershire Partnership Trust) managed schemes	25,019	9,494
Total Revenue Expenditure	**59,641**	**45,692**
Capital		
Disabled Facilities Grant	2,714	2,714
Total Capital Expenditure	**2,714**	**2,714**
Total Expenditure	**62,355**	**48,406**

Details of the income and expenditure in the pool are provided in the table above.

- Activity where funding was received and expended under the control of the ICB has been accounted for in their accounts
- Activity where funding was received and expended under the control of the Council has been accounted for in the Council's accounts
- Activity where funding was under joint control has been accounted for on the basis of the share for each organisation

Note 31 Members' Allowances

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

	2021/22	2022/23
	£	£
Basic Allowance Payments	614,452	625,276
Special Responsibility Payments	423,424	403,191
General Expense Payments	72,415	73,947
Total	**1,110,291**	**1,102,414**

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 2022/23, 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 2022/23 with comparative data from 2021/22 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 - Alison Greenhill (Head of Paid Service)	2022/23	152,629	38,904	-	**191,533**
	2021/22	148,742	36,461	-	**185,203**
Director Delivery, Communications & Political Governance	2022/23	108,527	30,062	-	**138,589**
	2021/22	107,149	28,603	-	**135,752**
Director of Finance - S151 Officer (Note 1)	2022/23	31,976	8,857	-	**40,833**
City Barrister & Head of Standards - Monitoring Officer (Note 2)	2022/23	82,775	22,879	-	**105,654**
	2021/22	81,215	21,636	-	**102,851**
Strategic Director Social Care and Education	2022/23	143,033	39,620	-	**182,653**
	2021/22	141,108	37,676	-	**178,784**
Strategic Director - City Development & Neighbourhoods	2022/23	143,033	39,620	-	**182,653**
	2021/22	135,616	36,210	-	**171,826**
Director of Public Health	2022/23	101,869	12,913	-	**114,782**
	2021/22	99,944	13,215	-	**113,159**

Notes:

1) The new Director of Finance took up the role in December 2022

2) The City Barrister works on a part time basis

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 to the right. 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.

Remuneration Band £	Number of Employees					
	Non-Schools		Schools		Total	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
50,000-54,999	84	97	77	97	161	194
55,000-59,999	50	44	40	37	90	81
60,000-64,999	33	26	43	49	76	75
65,000-69,999	12	32	14	21	26	53
70,000-74,999	12	14	14	11	26	25
75,000-79,999	3	1	15	15	18	16
80,000-84,999	8	7	3	7	11	14
85,000-89,999	-	1	9	5	9	6
90,000-94,999	-	1	-	4	-	5
95,000-99,999	7	-	-	-	7	-
100,000-104,999	1	7	2	1	3	8
105,000-109,999	-	-	1	2	1	2
110,000-114,999	-	-	1	2	1	2
115,000-119,999	-	-	1	-	1	-
130,000-134,999	1	-	-	-	1	-
135,000-139,999	-	-	-	1	-	1
Total	**211**	**230**	**220**	**252**	**431**	**482**

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.

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:

	2021/22	2022/23
	£000	£000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	173	179
Fees payable for the certification of grant claims and returns for the year	62	54
Fees payable in respect of other services provided during the year	26	30
Total	**261**	**263**

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.

Regulations for DSG deficits which affect the financial years between the 1st April 2020 to 31st March 2023 require where Local Authorities incur a deficit that it must be carried forward in the schools budget to be funded from future DSG income. Therefore, this deficit is included in the unusable reserve titled DSG Grant Adjustment Account in Note 26.

Details of the deployment of DSG receivable for 2022/23 are as follows:

2022/23	Central Expenditure	Individual Schools Budget	Total
	£000	£000	£000
Final DSG for 2022/23 before Academy recoupment	**-**	**-**	**391,732**
Academy figure recouped for 2022/23	-	-	(143,152)
Total DSG after Academy recoupment for 2022/23	**-**	**-**	**248,580**
Brought forward from 2021/22	-	-	-
Agreed initial budgeted distribution in 2022/23	**92,992**	**155,588**	**248,580**
In year adjustments	332	204	536
Final budgeted distribution for 2022/23	**93,324**	**155,792**	**249,116**
Actual central expenditure for the year	(95,675)	-	(95,675)
Actual ISB deployed to schools	-	(155,792)	(155,792)
Local Authority contribution for 2022/23	-	-	-
In year Carry forward to 2023/24	**(2,351)**	**-**	**(2,351)**
DSG unusable Reserve at the end of 2021/22			(3,643)
Total of DSG unusable reserve at the end of 2022/23			**(5,994)**

2021/22	Central Expenditure	Individual Schools Budget	Total
	£000	£000	£000
Final DSG for 2021/22 before Academy recoupment	**-**	**-**	**370,708**
Academy figure recouped for 2021/22	-	-	(132,538)
Total DSG after Academy recoupment for 2021/22	**-**	**-**	**238,170**
Brought forward from 2020/21	-	-	1,433
Agreed initial budgeted distribution in 2021/22	**86,837**	**152,766**	**239,603**
In year adjustments	(638)	-	(638)
Final budgeted distribution for 2021/22	**86,199**	**152,766**	**238,965**
Actual central expenditure for the year	(89,842)	-	(89,842)
Actual ISB deployed to schools	-	(152,766)	(152,766)
Carry forward to 2022/23	**(3,643)**	**-**	**(3,643)**

Note 35 Grant Income

Capital grants recognised in the year

The Council received the following capital grants in 2022/23.

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.

	2021/22	2022/23
	£000	£000
Credited to Services (All REFCUS related)		
Devolved Formula Capital Grant	2,020	2,821
Levelling Up Fund	-	1,672
Green Homes Grant	456	1,274
Disabled Facilities Grant	1,028	1,136
S106 Contributions	-	752
ERDF Growth Hub	792	371
Other	97	303
High Streets Heritage Action Zones	583	174
DFT Transforming Cities Fund	271	145
Affordable Warmth	262	17
Phoenix Square Cladding	373	-
DFT Cleaner Bus Technology Grant	195	-
Business Rates Pool	490	-
Total Credited to Services	**6,567**	**8,665**

Note 35 Grant Income (continued)

	2021/22	2022/23
	£000	£000
Credited to Taxation & Non-Specific Grant Income		
DFT Transforming Cities Fund	12,402	12,736
High Needs Provision Capital	2,014	8,420
DFE Capital Maintenance Grant	6,812	7,043
Levelling Up Fund	1,017	6,628
Social Housing Decarbonisation Grant	-	3,376
DFT Integrated Transport Grant	2,576	2,576
Other	249	1,302
DFT Maintenance Grant	1,812	1,812
DFE Basic Need Grant	-	1,688
Other DFT Grants	4,102	1,450
Green Homes Grant	(752)	1,116
Business Rates Pool	3,405	1,100
Devolved Formula Capital Grant	1,633	1,032
ERDF Low Carbon Projects	657	801
ERDF Growth Hub	168	742
Disabled Facilities Grant	833	
Other DFE Grants	-	500
High Streets Heritage Action Zones	359	118
Affordable Warmth	-	40
S106 Contributions	1,234	9
Salix Grant	26	-
DFT ZEBRA Grant	18,997	-
Homes England Grant	2,842	-
Land Release Fund	850	-
Phoenix Square Cladding	189	-
Brownfield Land Release Fund	443	-
Green Recovery Fund	202	-
THI Grant	160	-
Getting Building Fund	8,235	-
Total Credited to Taxation & Non-Specific Grant Income	**70,465**	**52,489**

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:

	2021/22	2022/23
	£000	£000
Capital Grants Receipts in Advance		
Other DFT Grants	738	2,348
Devolved Formula Capital Grant	3,053	2,025
Green Homes Grant	2,877	366
Disabled Facilities Grant	-	725
DFT Breathe Grants	184	184
Social Housing Decarbonisation Grant	4,008	-
Total Capital Grants Receipts in Advance	**10,860**	**5,648**
Capital Receipts not Recognised (deposits)	48	48
Total Received in Advance	**10,908**	**5,696**

Note 35 Grant Income (continued)

Revenue grants recognised in the year

The Council received the following revenue grants in 2022/23.

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.

	2021/22	2022/23
	£000	£000
Credited to Taxation & Non-Specific Grant Income		
Revenue Support Grant	29,029	29,923
Social Services Support Grant	13,094	17,659
Section 31 Grants	12,264	21,130
Covid-19 LA Support Grant	11,455	-
Covid-19 Collection Fund Compensation Grants	10,301	4,347
New Homes Bonus Scheme	4,732	2,803
Other	4,173	8,618
Covid-19 Grants- Sales, Fees & Charges Compensation Scheme	3,556	-
Business Support Grants	3,013	-
Other Covid-19 Grants	1,145	430
Total Credited to Taxation & Non-Specific Grant Income	**92,762**	**84,910**
Credited to Services		
Children's and Education Services		
Dedicated Schools Grant (see note 34)	238,170	248,580
Other Education	23,270	31,044
Pupil Premium	11,047	12,917
Other Covid-19 Grants	2,458	2,346
Adults and Housing		
Improved Better Care Fund	17,040	17,556
Other Covid-19 Grants	10,150	534
Other Adult Social Care	2,199	4,163
Public Health		
Public Health Grant	27,476	28,248
Other Public Health	1,102	2,097
City Development, Neighbourhoods & Housing		
Other City Development, Neighbourhoods & Housing	16,312	19,717
Waste PFI	2,074	2,591
Other Covid-19 Grants	1,288	702
Corporate and Resources		
Housing Benefit Subsidies	77,495	72,711
Other Covid-19 Grants	7,762	4
Other Corporate and Resources	6,896	10,597
Housing Benefit & Council Tax Benefit Admin Grant	1,152	1,116
Local Council Tax Support Admin Grant	553	433
Waste PFI	517	-
Elections	89	94
Total Credited to Services	**447,050**	**455,450**
Total Recognised in Year	**539,812**	**540,360**

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:

	2021/22	2022/23
	£000	£000
Children's and Education Services		
Other Education	-	1,022
Adult Social Care		
Other Adult Social Care	500	386
City Development, Neighbourhoods & Housing		
City Development, Neighbourhoods & Housing	1,540	1,720
Corporate and Resources		
Other Corporate and Resources	-	1,928
Public Health		
Public Health	-	72
Total Receipts in Advance	**2,040**	**5,128**

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 6 senior officers sit (either in a personal capacity or as representatives of the Council) on the governing bodies of 25 different organisations. The Council made a total of £2.2m in payments to twenty one 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 £0.9m was received from fifteen of the organisations, primarily relating to services provided by the Council and interest on an outstanding loan balance.

A senior officer from the Council sits on the board of directors at Leicestershire County Cricket Club, where there is a balance of £2m outstanding on a loan the Council made.

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 is on the board of directors, along with representatives from Leicestershire County Council, Leicestershire district councils, the private sector, voluntary sector and education sector.

The Council made total payments of £4.3m to the LLEP, in the form of contributions and interest payments due on the balances that the Council holds on their behalf. In addition £1.6m was received, £1.4m 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 2023 the council held a balance of £26.9m as accountable body to 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
- The underlying need to borrow 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.

		2021/22	2022/23
		£000	£000
Opening Capital Financing Requirement		**592,872**	**599,378**
Capital Investment			
Property, Plant and Equipment		138,540	111,467
Intangible Assets		370	202
Heritage Assets		45	19
Revenue Expenditure Funded from Capital Under Statute		15,081	30,911
Capital Loans Expenditure		-	1,877
De Minimis Capital Spend		19	4
	Sub-total	**154,055**	**144,480**
Sources of Finance			
Capital Receipts		(30,942)	(16,892)
Government Grants & Other Contributions		(83,949)	(104,484)
Sums set aside from revenue:			
Direct Revenue Contributions		(18,752)	(16,625)
(MRP/Loans Fund Principal)		(13,814)	(14,795)
Voluntary provision of financing		(92)	-
	Sub-total	**(147,549)**	**(152,796)**
Closing Capital Financing Requirement		**599,378**	**591,062**
Increase/(Decrease) in underlying need to borrow		5,067	(9,266)
HRA CFR adjustment		-	-
Assets acquired under Finance Leases		914	-
Assets acquired under PFI contracts		525	952
Increase/(Decrease) in Capital Financing Requirement		**6,506**	**(8,314)**

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 2022	31st March 2023
	£000	£000
Other Land and Buildings	2,388	2,376
Vehicles, Plant and Equipment	351	263
Total	**2,739**	**2,639**

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 2022	31st March 2023
	£000	£000
Finance lease liabilities	7,930	7,713
Finance costs payable in future years	13,245	12,818
Total minimum lease payments	**21,175**	**20,531**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31st March 2022	31st March 2023	31st March 2022	31st March 2023
	£000	£000	£000	£000
Within one year	644	479	217	59
Within 2 to 5 years	1,918	1,918	254	267
Later than 5 years	18,613	18,134	7,459	7,387
Total	**21,175**	**20,531**	**7,930**	**7,713**

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:

	31st March 2023
	£000
Not later than one year	456
Later than one year and not later than 5 years	1,756
Later than 5 years	3,172
Total	**5,384**

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:

Finance Lease Debtor	31st March 2023
	£000
Current	30
Non-current	983
Unearned finance income	1,555
Gross Investment in the lease	**2,568**

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.

Minimum Lease Payments	31st March 2023
	£000
Within one year	96
Within 2 to 5 years	385
Later than 5 years	2,087
Total	**2,568**

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 2022	31st March 2023
	£000	£000
Not later than one year	6,288	5,861
Later than one year and not later than 5 years	18,964	16,999
Later than 5 years	87,758	84,818
Total	**113,010**	**107,678**

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.

2022/23 was the twentieth year of the operation of the contract, costing £18m (£16m in 2021/22).

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, Plant & Equipment	Total
	£000	£000	£000
Balance at 1st April 2022	7,583	4,058	11,641
Additions	-	952	952
Depreciation	(1,285)	(1,064)	(2,349)
Revaluation	15	-	15
Balance at 31st March 2023	**6,313**	**3,946**	**10,259**

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

Payments

The Council makes an agreed payment each year which is increased by inflation (based on the RPI-X measure) and can be reduced if the contractor fails to meet performance standards. Payments remaining to be made under the PFI contract at 31st March 2023 (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	6,660	465	662	1,513	9,300
Within 2 to 5 years	27,507	1,898	1,421	6,169	36,995
Total	**34,167**	**2,363**	**2,083**	**7,682**	**46,295**

	2021/22	2022/23
	£000	£000
Balance outstanding at 1st April	4,969	3,371
Payments during the year	(2,123)	(1,959)
Additions	525	952
Balance at 31st March	**3,371**	**2,364**

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. Judgemeadow became an academy in 2018 and Soar Valley remains under the Council's control. When a PFI school converts, the Council continues 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 2022/23 was therefore the fourteenth year of the operation of the contract costing £7.1m.

Property Plant and Equipment

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

	Other Land & Buildings
	£000
Balance at 1st April 2022	43,611
Additions	-
Revaluations	5,486
Depreciation	(1,148)
Balance at 31st March 2023	**47,949**

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

Payments

The Council makes an agreed payment each year which is increased by inflation (based on the RPI-X measure) and can be reduced if the contractor fails to meet performance standards. Payments remaining to be made under the PFI contract at 31st March 2023 are as follows:

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Lifecycle Capital Replacement Costs	Total
	£000	£000	£000	£000	£000
Within 1 year	2,525	1,157	2,142	1,194	7,018
Within 2 to 5 years	10,829	6,708	7,314	3,744	28,595
Within 6 to 10 years	15,390	11,707	5,446	5,757	38,300
Within 11 to 15 years	3,902	4,283	400	156	8,742
Total	**32,646**	**23,855**	**15,302**	**10,851**	**82,655**

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:

	2021/22	2022/23
	£000	£000
Balance outstanding at 1st April	26,336	25,188
Payments during the year	(1,148)	(1,333)
Balance at 31st March	**25,188**	**23,855**

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

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

On 31st March 2012 the City Council committed to a joint PFI project scheme for the re-building 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. Crown Hills and City of Leicester Community Colleges remain under the Council's control. When a PFI school converts, the Council continues 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. 2022/23 was the tenth year of the operation of the contract costing £7.1m.

Property Plant and Equipment

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

	Other Land & Buildings £000
Balance at 1st April 2022	80,140
Additions	-
Revaluations/(Impairment)	8,514
Depreciation	(1,977)
Balance at 31st March 2023	**86,677**

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

Payments

The Council makes an agreed payment each year which is increased by inflation (based on the RPI-X measure) and can be reduced if the contractor fails to meet performance standards. Payments remaining to be made under the PFI contract at 31st March 2023 are as follows:

	Payment for Services	Reimbursement of Capital	Interest	Lifecycle Capital Replacement	Total
	£000	£000	£000	£000	£000
Within 1 year	2,740	960	2,216	1,455	7,372
Within 2 to 5 years	11,753	5,762	8,064	4,575	30,154
Within 6 to 10 years	16,652	10,342	7,519	5,441	39,954
Within 11 to 15 years	19,141	13,291	3,561	8,007	44,000
Within 16 to 20 years	2,430	1,908	75	982	5,396
Total	**52,717**	**32,263**	**21,435**	**20,461**	**126,876**

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

	2021/22	2022/23
	£000	£000
Balance outstanding at 1st April	35,182	33,876
Payments during the year	(1,306)	(1,613)
Balance at 31st March	**33,876**	**32,263**

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

District Energy Heating & Combined Heat Power Scheme

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

The scheme involves the replacement of existing heating boilers, the use of existing heating networks and the construction of additional heating networks in the City Centre and some outer Council estates. Leicester University are part of the scheme and their heating and electricity networks are linked into the overall network scheme.

The initial capital investment made by LDEC Ltd for the whole scheme was £13.7m.

Property Plant and Equipment

The assets used to provide the service and directly attributable to the City Council are recognised on the Council's Balance Sheet. The value of fixed assets attributable to the Council and operational as at 31st March 2023 are shown in the table:

	Vehicles, Plant & Equipment
	£000
Balance at 1st April 2022	6,526
Depreciation	(408)
Balance at 31st March 2023	**6,118**

Payments

The Council will make payments each year which can be reduced if the contractor fails to meet performance standards. Payments (substantially based on assumed levels of energy consumption) scheduled to be made under the contract at 31st March 2023 (excluding future inflation increases and the final phase which has yet to be completed) are as follows:

	Payment for Services	Reimbursement of Capital	Interest	Lifecycle Capital Replacement	Total
	£000	£000	£000	£000	£000
Within 1 year	1,793	301	752	215	3,061
Within 2 to 5 years	7,172	1,282	2,929	860	12,243
Within 6 to 10 years	8,965	2,516	2,748	1,076	15,305
Within 11 to 15 years	7,542	3,607	1,130	968	13,247
Within 16 to 20 years	2,262	46	15	-	2,323
Within 21 to 25 years	-	-	-	-	-
Total	**27,734**	**7,752**	**7,574**	**3,119**	**46,179**

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

Liability

The liability outstanding to the contractor for capital expenditure incurred up to 31st March 2023 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.

	2021/22	2022/23
	£000	£000
Liability for capital expenditure incurred for operational phases	7,809	7,515
Payments during the year	(294)	(310)
Balance at 31st March	**7,515**	**7,205**

Note 40 Termination Benefits

The Council terminated the contracts of a number of employees in 2022/23 incurring liabilities of £0.3m (£0.6m in 2021/22). Of this £0.3m (£0.5m in 2021/22) was for redundancy and other departure costs, and £34k (£77k in 2021/22) 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 to the right. In 2022/23 the Council approved 12 compulsory redundancies (27 in 2021/22).

Band	Total number of exit packages by cost band	Total Cost of Exit packages 2021/22	Total number of exit packages by cost band	Total Cost of Exit packages 2022/23
£	2021/22	£	2022/23	£
0 - 20,000	46	290,432	15	111,032
20,001 - 40,000	5	171,132	5	139,620
40,001 - 60,000	2	98,297	1	42,508
Total	**53**	**559,861**	**21**	**293,160**

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 2022/23, the Council paid £18.5m to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.68% of pensionable pay. The figures for 2021/22 were £18.1m and 23.68%.

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 2022/23, the Council paid £0.1m to the NHS Pension Scheme in respect of former NHS staff retirement benefits representing 14.38% of pensionable pay.

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 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.

The accounts have been prepared on the basis of the actuary's updated IAS19 valuation report dated 8th June 2023.

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 and the General Fund Balance via the Movement in Reserves Statement during the year.

	2021/22	2022/23
	£000	£000
Comprehensive Income and Expenditure Statement		
Cost of Services		
Current service cost	93,713	91,073
Past service cost	725	35
Settlements and curtailments	(4,943)	-
Total Service Cost	**89,495**	**91,108**
Financing and Investment Income and Expenditure		
Expected return on scheme assets	(31,442)	(47,757)
Interest cost	49,204	64,104
Net Interest Cost	**17,762**	**16,347**
Total Post-employment Benefit charged to the (Surplus) or Deficit on the Provision of Services	**107,257**	**107,455**
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement		
Return on plan assets excluding amounts included in net interest	(151,650)	69,449
Actuarial (gains)/losses arising from changes in demographic assumptions	(12,738)	(14,652)
Actuarial (gains)/losses arising from changes in financial assumptions	(172,019)	(899,704)
Other Experience adjustments	1,049	168,492
Effect of Asset Ceiling Adjustment	-	73,929
Total remeasurements recognised in the Comprehensive Income and Expenditure Statement	**(335,358)**	**(602,486)**
Total post-employment Benefit charged to the Comprehensive Income and Expenditure statement	**(228,101)**	**(495,031)**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits	107,257	107,455
Actual amount charged against the General Fund Balance for pensions in the year (Employers contributions paid to the scheme)	(52,841)	(58,746)
Total Movement in Reserves	**54,416**	**48,709**

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):

	2021/22	2022/23
	£000	£000
Balance at 1st April	**2,440,752**	**2,349,900**
Current service cost	93,713	91,073
Past service costs (including curtailments)	725	35
Effect of settlements	(11,637)	-
Interest cost	49,204	64,104
Contributions by scheme participants	11,779	12,826
Benefits paid	(50,928)	(51,645)
Remeasurements arising from changes in financial assumptions	(172,019)	(899,704)
Remeasurements arising from changes in other assumptions	1,049	115,230
Remeasurements arising from changes in demographic assumptions	(12,738)	(14,652)
Balance at 31st March	**2,349,900**	**1,667,167**

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

	2021/22	2022/23
	£000	£000
Balance at 1st April	**1,570,021**	**1,760,111**
Interest income	31,442	47,757
Effect of settlements	(6,694)	-
Contributions by scheme participants	11,779	12,826
Employer contributions	52,841	58,746
Benefits paid	(50,928)	(51,645)
Other Experience	-	(53,262)
Return on plan assets excluding amounts included in net interest	151,650	(69,449)
Balance at 31st March	**1,760,111**	**1,705,084**

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

	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000
Present value of funded obligations	(2,108,019)	(1,799,983)	(2,390,572)	(2,306,075)	(1,631,155)
Present value of unfunded obligations	(52,381)	(45,181)	(50,180)	(43,825)	(36,012)
Fair value of assets in the scheme	1,348,774	1,244,676	1,570,021	1,760,111	1,705,084
Asset Ceiling Adjustment	-	-	-	-	(73,929)
Surplus/(deficit) in the scheme	**(811,626)**	**(600,488)**	**(870,731)**	**(589,789)**	**(36,012)**

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. In previous years the Council has shown a significant liability on the pension fund. However, this year the Council's share of the pension fund assets, exceeds the Council's obligation. This is due to the rise in long term interest rates, leading to expected higher returns on investments. Furthermore, the accounting standards require this to be shown as nil due to the Council's minimum funding contributions for future years being more than the future years service cost which means this asset cannot be realised by the Council. Therefore, following the asset ceiling requirements, this year the final position shown is neither an asset nor liability.

Accounting standards require that we do not recognise the net asset on the main part of the pension fund, due to the Council's minimum funding contributions for future years being more than the future years' service cost which means the asset cannot be realised by the Council. Therefore, the final position shown is a £36m liability which relates to unfunded obligations that cannot be met from scheme assets.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31st March 2024 is £56.0m. The maturity profile is as follows:

	Liability Split
Active members	40.0%
Deferred members	18.0%
Pensioner members	42.0%
Total	**100.0%**

The weighted average duration of the defined benefit obligation for scheme members is 18 years as at the date of the most recent valuation.

Note 42 Defined Benefit Pension Schemes (continued)

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, based on the latest full valuation of the scheme as at 31st March 2022.

The main assumptions used by the actuary have been:

Local Government Pension Scheme	2021/22	2022/23
Mortality assumptions:		
Longevity at 65 for current pensioners (years):		
Men	21.5	20.8
Women	24.0	23.9
Longevity at 65 for future pensioners (years):		
Men	22.4	21.7
Women	25.7	25.3
Benefit entitlement assumptions		
Rate of increase in salaries	3.7%	3.45%
Rate of increase in pensions	3.2%	2.95%
Rate for discounting scheme liabilities	2.7%	4.75%
Take-up of option to convert annual pension into retirement lump-sum – relating to service pre April 2008	50.0%	55.0%
Take-up of option to convert annual pension into retirement lump-sum – relating to service post April 2008	75.0%	55.0%

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:

	2021/22				2022/23			
	Quoted Prices in Active Markets	Quoted Prices not in Active Markets	Total	Percentage of Total	Quoted Prices in Active Markets	Quoted Prices not in Active Markets	Total	Percentage of Total
	£000	£000	£000	Assets	£000	£000	£000	Assets
Equity								
Consumer	2,048		2,048	0%	181		181	0%
Manufacturing	255		255	0%	856		856	0%
Energy and Utilities	2,533		2,533	0%	1,761		1,761	0%
Financial Institutions	3,557		3,557	0%	540		540	0%
Health and Care	1,428		1,428	0%	293		293	0%
Information Technology	734		734	0%	329		329	0%
Other	4,125		4,125	0%	1,397		1,397	0%
Debt Securities								
UK Government	88,151	208	88,359	5%	78,327	203	78,530	5%
Other	3,301		3,301	0%	7,202		7,202	0%
Private Equity								
All		117,708	117,708	7%		116,736	116,736	7%
Real Estate								
UK Property		135,420	135,420	8%		120,840	120,840	7%
Investment Fund and Unit Trusts								
Equities	504,385	306,006	810,391	46%	742,970	3,654	746,624	44%
Bonds			-	0%			-	0%
Hedge Funds			-	0%	8		8	0%
Commodities		44,169	44,169	3%		43,795	43,795	3%
Infrastructure		92,025	92,025	5%		139,484	139,484	8%
Other	149,647	211,883	361,530	21%	231,827	175,540	407,367	24%
Derivatives								
Foreign Exchange	3,652		3,652	0%	783		783	0%
Cash and Cash Equivalents								
All	88,876		88,876	5%	38,359		38,359	2%
Total	**852,692**	**907,419**	**1,760,111**	**100%**	**1,104,834**	**600,250**	**1,705,084**	**100%**

Note 42 Defined Benefit Pension Schemes (continued)

Sensitivity Analysis

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

Changes in assumptions at 31st March 2023	Approximate % increase to Defined Benefit Obligation	Approximate monetary amount (£000)
0.1% decrease in Real Discount Rate	2.0%	29,925
0.1% increase in the Salary Increase Rate	0.0%	3,343
1 Year Increase in Life Expectancy	4.0%	66,687
0.1% increase in the Pension Increase Rate	2.0%	27,028

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

A claim has been lodged with HM Courts and Tribunal Service by Biffa Group Holdings (UK) Limited and group companies, regards disputed matters in relation to payments due under the PFI contract for waste management (see Note 39). There is potential for this to progress through the high court process, with a full court hearing unlikely to be until 2025. It is not practicable at this time to estimate the financial effect. It is however unlikely that the council would receive any reimbursement.

Note 44 Contingent Assets

The council has no contingent assets to disclose in the 2022/23 accounts.

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.

2021/22 £000		Note	2022/23 £000
	Income		
(74,564)	Dwelling Rents	5	(77,085)
(373)	Non-dwelling Rents	6	(352)
(5,861)	Service Charges	6	(6,036)
(752)	Contributions & Miscellaneous income		(978)
(81,550)	**Total Income**		**(84,451)**
	Expenditure		
13,194	General Management		14,097
13,456	Special Management	3	15,074
32,137	Repairs & Maintenance		36,489
1,428	Rent, Rates, Taxes & Other Charges		1,901
13	Increase/ (Decrease) in Bad Debt Provision	4	346
42,165	Depreciation & Impairment of Fixed Assets	12	35,459
60	Debt Management Expenses		60
489	Other Expenditure		450
102,942	**Total Expenditure**		**103,876**
710	HRA share of Corporate & Democratic Core		710
22,102	**"HRA Comprehensive Income and Expenditure Line"**		**20,135**
22,102	**Net Cost of HRA Services**		**20,135**
3,124	(Gain) or Loss on Sale of HRA Assets		1,928
8,737	Loan Charges - Interest		9,434
(306)	Investment Interest		(742)
5,318	Pensions - Interest on Liabilities	14	6,902
(3,398)	Pensions - Expected Return on Assets	14	(5,142)
35,577	**(Surplus) / Deficit for the Year**		**32,515**

Housing Revenue Account (HRA) Statements - Movement in Reserve

2021/22 £000		Note	2022/23 £000
35,577	**(Surplus) / Deficit for the Year (from above)**		**32,515**
	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		
359	Amounts charged to the HRA for amortisation of Premia and Discounts for the year determined in accordance with statute		359
(6,595)	HRA share of contributions to/(from) the Pension Reserve	14	(5,519)
(3,124)	Gain or (Loss) on Sale of HRA Fixed Assets		(1,928)
(42,165)	Depreciation and capital expenditure not adding value for Fixed Assets	12	(35,459)
5,946	Capital Expenditure Financed from Revenue Account	10	829
947	HRA Set-Aside (MRP)		1,253
12,680	Transfers to/(from) the Major Repairs Reserve	13	15,558
89	Transfers to/(from) the Employee Benefits Reserve		(4)
(489)	Other Adjustments		(450)
(32,352)	**Total value of items reversed as part of determining the statutory movement on the Housing Revenue Account Balance**		**(25,361)**
3,225	**Net (Surplus)/Deficit on the Housing Revenue Account in the year**		**7,154**
(35,757)	Balance Brought Forward 1st April 2022		(32,532)
(32,532)	**Balance Carried Forward 31st March 2023 - (Surplus)/Deficit**		**(25,378)**

Housing Revenue Account (HRA) Explanatory Notes

1. Housing Revenue Account

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

These determinations have been made by the Council and the appropriate entries have been made in respect of capital accounting and financing transactions.

2. Changes to Accounting Practice

There has been no change in accounting practice.

3. Special Management

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

4. Rent Arrears and Provision for Bad Debts

Rents and Service Charges

The bad debt provision for rents and service charges at 31st March 2023 was £1.0m (£1.0m at 31st March 2022). This is calculated on a rent and service charge arrears balance of £2.8m (£3m in 2021/22).

5. Net Rent Income from Dwellings

	2021/22	**2022/23**
	£000	**£000**
Total Rent income from Dwellings	74,564	77,085
Less Housing Benefit	(27,633)	(26,029)
Total	**46,931**	**51,056**

6. Non -Dwelling Rents and Service Charges

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

Housing Revenue Account (HRA) Explanatory Notes (continued)

219

7. Housing Stock

Changes to Housing Stock:

	2021/22	2022/23
Number of Dwellings at 1st April	20,066	19,847
Acquisitions	92	51
Right to Buy sales	(311)	(329)
Other Disposals	-	(134)
Number of Dwellings at 31st March	**19,847**	**19,435**

8. Value of HRA Assets

	31st March 2022	31st March 2023
	£000	£000
Dwellings	1,161,369	1,229,917
Other Land and Buildings	21,848	23,140
Assets Under Construction	-	1,563
Vehicles, Plant, Furniture & Equipment	22	-
Surplus Assets	298	910
Assets Held for Sale	-	441
Intangible Assets	14	7
Total	**1,183,551**	**1,255,978**

9. Vacant Possession Value of Council Dwellings

The vacant possession value of council dwellings at 31st March 2023 was £3bn. At the same date the balance sheet value of council dwellings was £1.2bn. The difference of £1.8bn 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 2022	31st March 2023
	£000	£000
Vacant possession values	2,764,841	2,968,075

10. Capital Expenditure

HRA capital expenditure on land, houses and other property in 2022/23 totalled £33m, financed as follows:

	2021/22	2022/23
	£000	£000
Major Repairs Reserve	12,680	15,558
Use of borrowing	14,859	6,195
Other grants and contributions	-	1,239
Usable capital receipts	16,865	9,328
Financing from revenue account	5,946	829
Total	**50,350**	**33,149**

11. Capital Disposals

HRA capital disposals in 2022/23 were as follows:

	2021/22	2022/23		
	Total Receipt	Usable/ Retained	Pooled/ Set aside	Total Receipt
	£000	£000	£000	£000
Right to Buy (RTB) sales	(17,993)	(14,202)	(5,027)	(19,229)
Total	**(17,993)**	**(14,202)**	**(5,027)**	**(19,229)**

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.

	2021/22				2022/23			
	Depreciation	Capital expenditure not adding value	Other Impairments	Total	Depreciation	Capital expenditure not adding value	Other Impairments	Total
	2021/22	2021/22	2021/22	2021/22	2022/23	2022/23	2022/23	2022/23
	£000	£000		£000	£000	£000	£000	£000
Dwellings	11,459	20,138	8,828	40,425	12,536	18,296	-	30,832
Other Land and Buildings	736	132	-	868	2,623	868	-	3,491
Vehicles, Plant, Furniture & Equipment	437	-	-	437	388	-	-	388
Surplus Assets	4	(4)	-	-	4	-	737	741
Intangible Assets	44	391	-	435	7	-	-	7
Total	**12,680**	**20,657**	**8,828**	**42,165**	**15,558**	**19,164**	**737**	**35,459**

Housing Revenue Account (HRA) Explanatory Notes (continued)

13. Use of Major Repairs Reserve

	2021/22	2022/23
	£000	£000
Balance at 1st April	-	-
Depreciation credited	(12,680)	(15,558)
Capital expenditure on land, houses and other property	12,680	15,558
Balance at 31st March	**-**	**-**

14. HRA Contributions to the Pensions Reserve

This table identifies the total HRA share of contributions to and (from) the pensions reserve and breaks the figure down to show the type of contribution to or (from) the reserve. More detailed information on pensions is provided in note 42 to the core financial statements.

	2021/22	2022/23
	£000	£000
Pension costs incurred in Net Cost of Services:		
Current service cost	(4,676)	(3,759)
	(4,676)	**(3,759)**
Pension interest cost and expected return on assets:		
Interest on liabilities	(5,318)	(6,902)
Expected return on assets	3,398	5,142
	(1,920)	**(1,760)**
Total Transfer to Pension Reserve	**(6,596)**	**(5,519)**

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.

2021/22					2022/23		
Council Tax	**Business Rates**	**Total**			**Council Tax**	**Business Rates**	**Total**
£000	**£000**	**£000**		**Note**	**£000**	**£000**	**£000**
			Income				
(155,104)		(155,104)	Council Tax Collectable	2	(164,961)		(164,961)
	(89,458)	(89,458)	Income from Business Ratepayers			(97,885)	(97,885)
	(24)	(24)	Transitional Protection payments - Business Rates			333	333
		(244,586)	**Total Income**				**(262,513)**
			Expenditure				
			Precepts and Demands:	3			
126,790		126,790	Leicester City Council		134,424		134,424
18,569		18,569	Police & Crime Commissioner for Leicestershire		19,884		19,884
5,183		5,183	Leicestershire & Rutland Combined Fire Authority		5,720		5,720
		150,542					160,028
			Business Rates:	4			
	55,789	55,789	Payments to Government			46,982	46,982
	1,116	1,116	Payments to Fire			940	940
	54,673	54,673	Payments to Leicester City Council			46,043	46,043
	478	478	Costs of Collection			483	483
		112,056					94,448
(1,933)	(49,474)	(51,407)	Contributions in respect of previous year's surplus / (deficit)	6	(1,043)	(37,019)	(38,062)
			Bad and Doubtful Debts:	7			
988	969	1,957	Write-offs		1,150	1,688	2,838
1,093	(1,780)	(687)	Increase / (Reduction) to provision		2,162	(66)	2,096
	(1,116)	(1,116)	Increase / (Reduction) to Provision for appeals			(6,209)	(6,209)
		154					(1,275)
		211,345	**Total Expenditure**				**215,139**
(4,414)	(28,827)	(33,241)	Fund (Surplus) / Deficit for the Year		(2,663)	(44,710)	(47,374)
5,688	58,752	64,440	Fund (Surplus) / Deficit brought forward	5	1,274	29,925	31,199
1,274	**29,925**	**31,199**	**FUND BALANCE AS AT 31st MARCH - (Surplus)/Deficit**	**1**	**(1,389)**	**(14,785)**	**(16,175)**

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:

	2021/22			2022/23		
	Council Tax	Business Rates	Total	Council Tax	Business Rates	Total
	£000	£000	£000	£000	£000	£000
Leicester City Council	1,073	14,663	15,736	(1,160)	(7,244)	(8,404)
Government	-	14,963	14,963	-	(7,393)	(7,393)
Leicestershire & Rutland Combined Fire Authority	46	299	345	(51)	(148)	(199)
Police & Crime Commissioner for Leicestershire	155	-	155	(178)	-	(178)
Fund Balance Allocations as at 31st March	**1,274**	**29,925**	**31,199**	**(1,389)**	**(14,785)**	**(16,174)**

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 2022/23 was £165m including arrears from prior years.

The collectable Council Tax specifically for 2022/23 was £190.3m (including sums paid under the Local Council Tax Reduction Scheme). After taking into account the total amount of this reduction (£24.3m), the average number of Band D dwellings equates to 79,304. This is an increase from the 77,001 dwellings existing when the 2022/23 budget was prepared.

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-	254	5/9	141	48	93
A	70,166	6/9	46,777	9,324	37,453
B	24,198	7/9	18,821	1,857	16,964
C	14,086	8/9	12,521	899	11,622
D	6,001	9/9	6,001	263	5,738
E	3,205	11/9	3,917	104	3,813
F	1,477	13/9	2,133	41	2,092
G	567	15/9	945	7	938
H	30	18/9	60	0	60
	119,984		**91,316**	**12,543**	**78,773**
Less adjustments for collection rates and other adjustments.					(1,772)
Council Tax Base					**77,001**

Collection Fund Explanatory Notes (continued)

3. Precepts and Demands

The following sums were paid from the collection fund.

	2021/22 £000	2022/23 £000
Leicester City Council	126,790	134,424
Police & Crime Commissioner for Leicestershire	18,569	19,884
Leicestershire & Rutland Combined Fire Authority	5,183	5,720
Total	**150,542**	**160,028**

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 2022	31st March 2023
	£	£
Non Domestic Rateable Value	**303,993,706**	**302,917,580**

	2021/22	2022/23
Non Domestic Rating Multiplier	51.2p	51.2p
Non Domestic Rating Multiplier- Small Business	49.9p	49.9p

Collection Fund Explanatory Notes (continued)

5. Collection Fund Surpluses & Deficits

The Collection Fund account shows a cumulative surplus of £16.2m at 31st March 2023 (£31.2m deficit at 31st March 2022) for Council Tax and Business Rates.

The surplus arising from business rates is £14.8m (£29.9m deficit at 31st March 2022). This has arisen due to less business rates reliefs than originally budgeted and changes in the forecast for loss of business rate appeals. In addition, there was a requirement for the 2020/21 deficit to be realised over three years, which is reducing the surplus. However, it should be noted that the Council was compensated through government grants and these are recognised in the main financial statements.

The surplus arising on Council Tax is £1.4m (£1.3m deficit 31st March 2022). The surplus that has arisen on Council Tax 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.

Similar to business rates, in 2020/21 as a result of the pandemic the Council incurred a significant deficit on Council Tax that was required to be spread the over 3 years. The third year of this spreading is 2023/24. This will continue to be distributed between Leicester City Council, the Police & Crime Commissioner for Leicestershire and the Leicester, Leicestershire & Rutland Combined Fire Authority.

Collection Fund Explanatory Notes (continued)

6. Contributions to Collection Fund Surpluses & Deficits

Share of Surpluses/Deficits

Council Tax

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

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

	City	Police	Fire	Total
	£000	£000	£000	£000
Estimated Deficit – Jan 2022	879	126	38	1,043

Business Rates

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

	City	Government	Fire	Total
	£000	£000	£000	£000
Estimated Deficit – Jan 2022	18,139	18,510	370	37,019

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.

	Bad Debt Provision			
Provisions	Balance at 1st April 2022	Bad Debt Write-offs In year	Increase/ (Decrease) to Provision	Balance at 31st March 2023
	£000	£000	£000	£000
Council Tax	13,014	(1,150)	3,312	15,176
NNDR	5,607	(1,688)	1,622	5,541
Total	**18,621**	**(2,838)**	**4,934**	**20,717**

Annual Governance Statement

Leicester City Council Annual Governance Statement 2022-23

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

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

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

- The Council's governance arrangements
- The role of those responsible for the development and maintenance of the governance environment
- Any significant risks or priorities that have been identified
- An assessment of the effectiveness of key elements of the Council's governance framework

2. The Arrangements

The Council has an approved Local Code of Corporate Governance which is based on seven core principles taken from the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) (the 'International Framework'). A diagram showing the seven core principles is included in Appendix 1.

Appendix 2 is then a summary of the governance arrangements within which the Council works; and Appendix 3 shows how the Council assesses its governance arrangements to inform the Annual Governance Statement.

The following section details the systems, policies and procedures the Council has in place for governance and how this links to the seven core principles for good governance in the public sector included in the diagram at Appendix 1.

A) The Council behaves with Integrity, demonstrates strong commitment to ethical values, and respects the rule of law by having the following codes and rules which are followed:

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

B) The Council ensures Openness and Comprehensive Stakeholder Engagement through the following:

- Open Council & committee meetings with published minutes
- Published Executive decisions
- Scrutiny of Executive projects through scrutiny commissions
- Call in periods for Executive decisions
- Public engagement through consultation, representations and petitions
- Use of social media engagement on key projects and partnership working
- Publication of Freedom of Information Act responses and transparency data
- A range of communication channels including press-release and other communications linked to significant decisions and council activity

2. The Arrangements (continued)

C) The Council defines outcomes in terms of sustainable economic, social and environmental benefits through the City Mayor's strategic vision which contain a number of key pledges and which have been regularly scrutinised:

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

D) The Council determines the interventions necessary to optimise the achievement of the intended outcomes by supporting the above key pledges with the following key plans:

- Economic Recovery
- Budget Strategy (updated annually)
- Corporate Estate Annual Report
- Leicester Labour Market Partnership (Textile) Review 2020-22
- Leicester Street Design Guide
- Joint Health & Wellbeing Strategy 2019-2024
- Knife Crime and Serious Violence Strategy 2021-2023
- Local Transport Plan 2011-2026
- Tourism Action Plan 2020-2025
- Economic Action Plan

E) The Senior Leadership team continue to develop the entity's capacity, including the capability of its leadership and the individuals within it and this is 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

F) The Council manages risks and performance through robust internal control and strong public financial management by reviewing 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 risk management strategy and policy and regular monitoring, evaluation and reporting on strategic and operational risks
- Annual review of the Assurance Framework

G) The Council Implements good practices in transparency, reporting, and audit to deliver effective accountability. This is demonstrated through:

- External Audit
- Annual Financial Statements
- Annual Governance Statement
- Open Council & committee meetings with published minutes
- Published Executive decisions accompanied by external communications
- Compliance with CIPFA codes of Practice (including the Financial Management Code)
- Scrutiny Commissions and regulatory committees
- External inspections and reviews of services

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

www.leicester.gov.uk

3. Review of Effectiveness

The Audit & Risk Committee considers a wide range of business as part of its central role as part of the Council's system of corporate governance, risk management, fraud and internal control. The Audit & Risk Committee is complemented by the various scrutiny committees.

Any areas or activities that identify significant weaknesses in financial controls, governance arrangements or the management of risk through the Council's review of processes are then reported to the Audit & Risk Committee.

Key items that the Audit and Risk Committee considered throughout the year were:

- Annual review of local code of corporate governance
- Progress against internal audit plans
- Regular progress updates on the external audit of the statement of accounts
- Performance of the Council in authorising regulatory investigation powers
- Procurement annual report
- Insurance annual report
- Fraud, corruption and anti-money laundering reports
- Strategic & operational risk registers
- Business continuity strategies and policies
- Whistleblowing policy review
- Corporate complaints
- Complaints made to the Local Government and Social Care Ombudsman and the Housing Ombudsman

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 is supported by Appendix 4 which demonstrates how the Council complies with the CIPFA Financial Management Code and the internal audit opinion which stated:

"A return to more stable working environments following covid-19, along with a fully staffed Internal Audit Service throughout the year, resulted in increases to both the number of audits undertaken and days provided. There was a noticeable shift back to assurance based audits.

There was a reduction in the proportion of audits returning partial assurance ratings and management accepted and has responded to internal audit recommendations. Nothing else of significance has been brought to his attention so the HoIAS* considers that during 2022-23, reasonable assurance can be given that the Council's control environment remained overall adequate and effective"

***Head of Internal Audit Service**

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 2022-23 (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 2021/22

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

Issue Identified	Action taken to Date
Construction cost inflation pressures – It is nationally documented that construction cost inflation is increasing the cost of capital projects. There are several issues affecting construction prices such as: • Covid 19, • Brexit effect on imported materials, • Ukraine war and Russia's economic sanctions.	The Council has been monitoring and reviewing construction costs against both local and national indices. Through project boards and governance structures, where appropriate inflation profiles are being monitored and reflected in project, finance and risk profiles reports. To date, circa £5m is identified as likely to be required, which aligns to provisions previously made early within the capital programme to mitigate this issue.
Medium Term Financial Strategy - We set a balanced budget for 2022/23. We only had the government finance settlement for 2022/23 when we set the budget, but national spending plans suggested we faced major problems in paying for the rising cost of adult social care without adequate government funding.	The Council continuously reviewed budgets throughout the year and took savings once identified which helped reduce the scale of expected future deficits. The Council has set a balanced budget for 2023/24, with the use of managed reserves.
Inflation & Supply Chain issues – in addition to the cost pressures being seen in relation to construction contracts, the Council saw similar pressures impacting revenue budgets: in particular, gas and vehicle fuel prices. This in turn had an impact on city residents who were affected by cost of living increases, putting additional demands on the Council's services.	The Council has continued to monitor these costs and has implemented a series of cost mitigation strategies for energy usage. Engagement has continued with the supply chain, to ensure impacts on budgets are minimised. For residents across all services, mitigation strategies have been put in place, for example in social housing district heating charges and rental debts. The Council has introduced a cost of living support area on its website.

Issues Identified in 2021/22 Continued

Issue Identified	Action taken to Date
Covid-19 Pandemic – like all authorities the Council continued to be impacted by the pandemic in various ways. This included direct incident response such as provision of contact tracing and administration of support such as self-isolation payments to residents and grants to businesses. The pandemic continued to have a financial impact on spending, and changed the nature of some service provision. Close political and managerial oversight of the Covid-19 response was maintained with regular engagement and reporting to the Executive and scrutiny committees (via the City Incident Management Group and across Leicester, Leicestershire and Rutland via the Local Resilience Forum).	Monitoring has continued based on the more limited data that is now available and any necessary actions have been embedded as part of ongoing working with the NHS and other partners.
Cyber Risk – loss or compromise of IT systems and/or associated data through a cyber security attack. This is a national issue with an increasing prevalence and sophistication in terms of malware attacks used by cyber attackers to circumvent ICT defences and attack core systems.	A contract is now in place with an external security operations centre which provides 24/7 monitoring and identification of potential cyber risks and threats. Significant investment has been made in cyber-security technologies including the latest next generation firewalls. There has been ongoing monitoring of guidance from various security bodies including the National Cyber Security Centre and the LGA Cyber Security Advisories. The recommendations arising from these bodies have been acted upon. Work is ongoing through business continuity planning and testing across the organisation to develop resilience to respond to the impacts of a potential cyber attack.
Safeguarding processes - weak management oversight of safe- guarding processes in place led to the Council inadequately safeguarding vulnerable groups.	The Safeguarding Adults Board and the Safeguarding Children Partnership have continued to operate, working closely with peers across Leicester, Leicestershire and Rutland. There has been a particular focus on ensuring that training is of high quality, is available to all staff who need it, and the impact is measured. A new independent chair for the Adults Board has been appointed. She is a former DASS and a national lead on safeguarding for ADASS. Work is in hand to recruit a new independent chair for the Children's Partnership.

Issues Identified in 2021/22 Continued

Issue Identified	Action taken to Date
Care Skills Shortages – services were unable to meet demand due to a shortage of health visitors, occupational therapists, so- cial workers, and other care professionals. This is a national is- sue, with an increase noted of staff leaving the workforce, both through early retirement and moving to other sectors. In addition, staff shortages are encouraging some staff to leave permanent employment in order to work on an agency basis, reducing ser- vice stability and increasing costs.	Work has been done to review the roles of social workers across both adult and children's social care, together with occupational therapists in adult care. This has allowed expansion of the roles of care management officers and assistant OTs, and the introduction of alternatively qualified practitioners in Children's Services. This work has been closely connected to work being undertaken by councils across the region, to ensure consistency and shared learning.
Safeguarding Skill Shortage – a national shortage of public health nurses (both health visitors and school nurses) meant vacant posts were impossible to recruit to.	Work is ongoing with the provider to develop a mixed skilled approach.

Leicester City Council Annual Governance Statement 2022-23 (continued)

Issues Identified in 2022/23

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

Issue Identified	Planned Action:
Medium Term Financial Strategy – We have set a balanced budget for 2023/24 and 2024/25 with the use of managed reserves. However, we estimate our reserves will run out part way through 2025/26 and therefore significant savings are essential. We are facing restricted government funding at a time of increasing costs. We continue to face significant cost pressures in adult social care and the additional money made available in the Autumn Statement in November 2022 is insufficient to meet our forecast cost growth.	The Council will continue to monitor its finances and focus on reviewing budgets and services to achieve the significant level of savings required. The Council will also continue to be a prominent voice in the sector and provide feedback as appropriate to government on the challenges faced.
Uncertain political and policy environment - There are continued uncertainties in relation to strategic direction and priorities at national level. Uncertainty has also been caused by wide ranging industrial action across sectors including health and education.	Work will now take place following the May 2023 local elections to review and articulate priorities for the forthcoming term. There will be continued emphasis on robust business continuity planning, testing and training. Strategic directors will continue to meet regularly to review strategic risks and actions needed to mitigate/address them.
Economic instability and rising inflation – A weak national economy and high inflation pushes up costs, and limits the supply of goods, supplies and services. Significantly increased costs for services and for capital schemes can result in overspends, budget pressures and inability to meet demand. Lack of availability of key supplies, goods and services and relevant skills and expertise can cause delays and risk ability to deliver services and capital schemes.	The Council has continued to monitor capital budgets, and ensure during inception of projects that an allowance for inflation is built into projects. Allowance is made for existing projects which are already in delivery. In terms of supplies, we have continued to monitor the market on a three monthly basis, and where appropriate have changed the make-up of core components of projects or supplies needed to deliver projects. On skills, a successful recruitment campaign has continued and our salary structures have changed in some core job roles to ensure delivery of key services is maintained. External partners have been engaged to bring in skills so core delivery can be maintained on certain key projects and services.

Issues Identified in 2022/23 Continued

Issue Identified	Planned Action:
Lack of critical skills, resources and capabilities across the workforce - Insufficient skills and resources due to a competitive employment market, local authority pay constraints and an ageing workforce. Inability to recruit and retain staff, including at the most experienced and senior levels, may result in risks to the day-to-day delivery and transformation of services, and delivery of priority projects including capital schemes.	Workforce planning has been identified as a high priority for organisational development (OD). The OD Team is developing a framework and approach to roll out across the organisation. Targeted work will continue with specific services to identify innovative strategies where there are recruitment challenges. In addition, work continues on entry to employment and on “grow our own approaches” where appropriate.
Impacts arising from numbers and complexity of needs of asylum seekers and refugees – Needs arising from increasing numbers of asylum seekers and refugees being placed in the city and the complexity arising from the range of national schemes and support arrangements for different groups including unaccompanied children, Ukrainian, Syrian and Afghan refugees	A governance board is in place corporately, with oversight of the component parts of asylum and refugees, which covers all aspects from housing through to social care. We have continued to make representation to the Home Office, and ensure our safeguarding teams are pro-active in identifying issues early. Whilst continuing to work with key partners in the city such as Fire and Police. However, this continues to be a risk for the Council as numbers continue to rise and staff capacity/recruitment in key roles such as social workers is a significant issue and growing risk.
Cyber Risk – loss or compromise of IT systems and/or associated data through a cyber security attack. As in 2021/22, this is a national issue with an increasing prevalence and sophistication of malware attacks used by cyber attackers to circumvent ICT defences and attack core systems. On 7th March 2024, the Council was the subject of a cyber incident that resulted in significant disruption to systems and processes.	Mandatory training on ICT Security will be introduced as part of the HR “on-boarding” process for new starters, with a continued focus on raising awareness with existing staff. We will use findings from our Cyber Security Operations Centre to identify areas for further improvements, and will implement formal quarterly reporting on cyber security threats and responses. As part of the Council’s involvement in the DLUHC Future Councils’ Programme, we will baseline our cyber maturity, benchmark against others and identify further opportunities for improvement. This will build on the work have already done using the Cybersecurity Capability Maturity Model (C2M2). Recovery processes and investigations are ongoing

Leicester City Council Annual Governance Statement 2022-23 (continued)

Issues Identified in 2022/23 Continued

Issue Identified	Planned Action:
Reputational impact of an unsatisfactory assurance rating of ASC from the Care Quality Commission – this could lead to loss of public confidence in adult care services, a fall in morale of staff, high staff turnover and a need to strengthen governance and practice controls. This is a national issue, with uncertainties over the calibration of CQC assessments, given that the process is entirely new and all councils are experiencing pressures in meeting their Care Act duties.	A robust self-assessment process will be undertaken, drawing in staff at all levels, partners and people with lived experience, to develop a sound view of current performance. This will be used to address areas where performance does not meet the required standard. The Council will engage with regional work to develop the model for self-assessment and draw on work to develop tools and techniques to improve practice and performance. Existing work of co-production with people who have lived experience will continue, to review measures and practice processes to ensure these meet need.

4. Conclusion

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

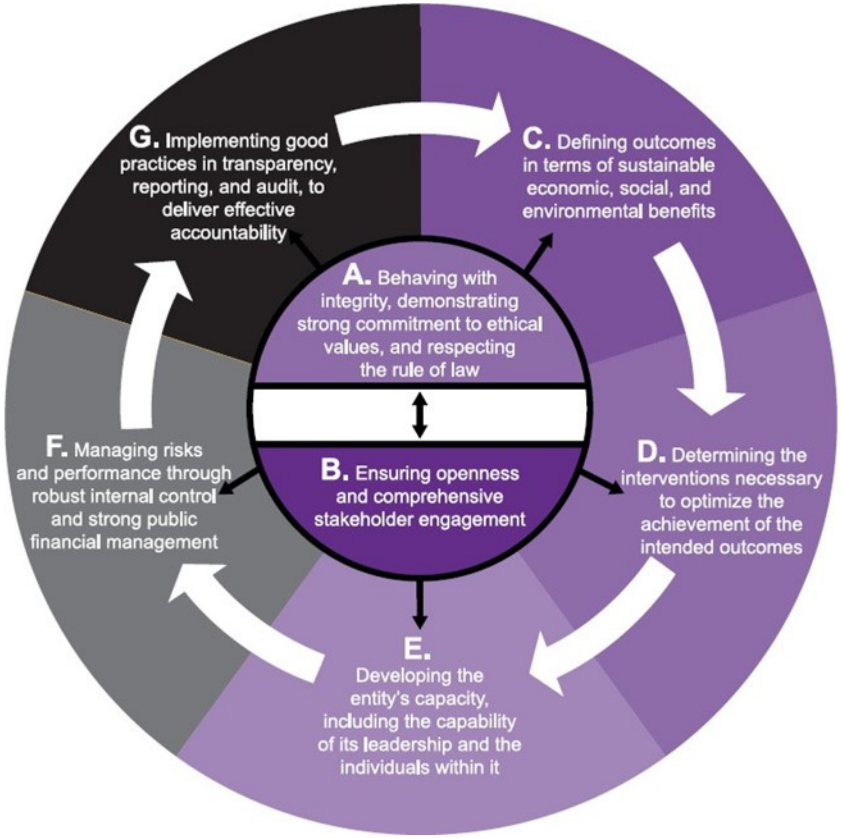
City Mayor

Chief Operating Officer

The Council's Code of Corporate Governance is based on the seven core principles. The illustration below shows the principles of good governance in the public sector and how they relate to each other.

Achieving the Intended Outcomes

While Acting in the Public Interest at all Times



The Council had the following governance arrangements in place during 2022/23.

SUMMARY OF THE COUNCIL'S GOVERNANCE ARRANGEMENTS

Mayor, Executive and Council

- Provide leadership, develop and set policy
- Key risks are considered by the Executive three times per year.

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 three times per year

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

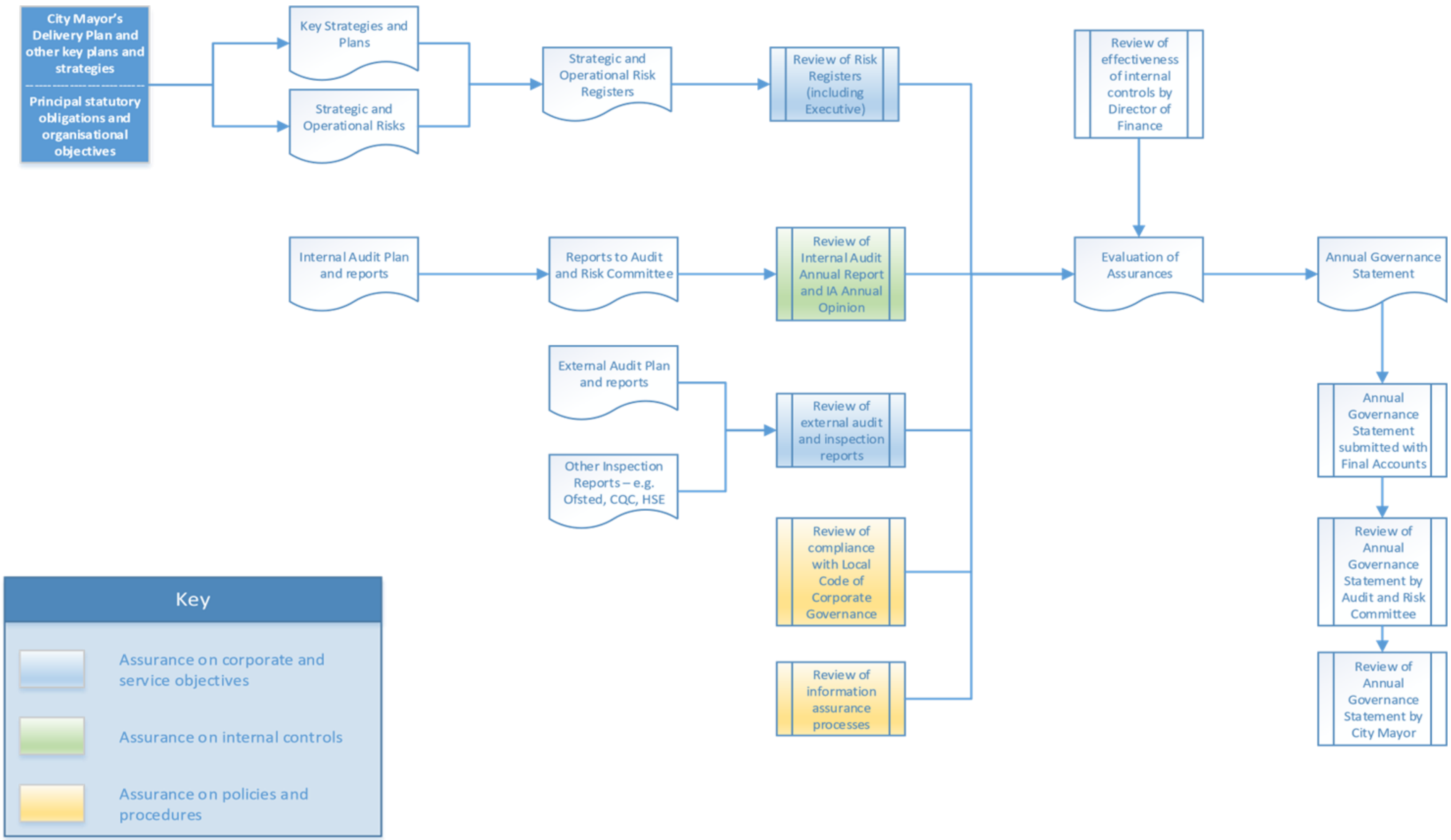
Corporate Management Team (CMT)

- 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
- The Director of Finance is the s.151 Officer and is responsible for safeguarding the Council's financial position and ensuring value for money
- Monitoring Officer is the City Barrister & Head of Standards who is responsible for ensuring legality and promoting high standards of public conduct
- CMT includes all strategic and divisional directors

Leicester City Council Annual Governance Statement 2022-23 (continued)

Appendix 3

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



The following table is a summary of the CIPFA financial management code standards with a brief explanation of how the Council complies with each standard.

CIPFA financial management standard	How the Council demonstrates it complies
The leadership team is able to demonstrate that the services provided by the authority provide value for money.	Annually this is supported by the external audit value for money opinion. Ensuring value for money is also the role of the section 151 officer and this is evidenced in the Annual Governance Statement, under the summary of the Council's governance arrangements.
The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	The Director of Finance (section 151 officer) is professionally qualified and has suitable experience. The Director of Finance is a key member of the leadership team and is actively involved in all material business decisions, ensuring they are in line with the Council's financial strategy. She safeguards public money through good financial management and leads a finance team that is resourced and fit for purpose. Annually this is supported by the value for money opinion and the audited statement of accounts.
The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	The Annual Governance Statement supports the leadership team meeting these requirements. The Statement includes: • How governance and internal control are supported by scrutiny and review, in particular through the Audit and Risk Committee. • A statement from the Council that it complies with the CIPFA/SOLACE Delivering Good Governance Framework (2016).
The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).	

<table>
<tr><th>CIPFA financial management standard</th><th>How the Council demonstrates it complies</th></tr>
<tr><td>The financial management style of the authority supports financial sustainability.</td><td rowspan="6">Annually the Council approves the budget strategy which includes the revenue and capital budgets, alongside the Treasury Management Strategy and Investment Strategy. As part of the budget strategy, the medium term financial outlook is considered and it is acknowledged the Council is using managed reserves to balance the budget. This evidences the Council understands its prospects for financial sustainability in the longer term and this is reported clearly to members.

The budget report includes a statement from the Chief Finance Officer on the robustness of estimates and the adequacy of financial reserves.

Throughout the year monitoring is then conducted to identify any variations from what was budgeted and allows for timely corrective action to be taken. Monitoring reports are subject to scrutiny and go to the Overview Select Committee on a periodic basis. This includes the capital and revenue budget monitoring, income collection and treasury management reports.</td></tr>
<tr><td>The authority has carried out a credible and transparent financial resilience assessment.</td></tr>
<tr><td>The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.</td></tr>
<tr><td>The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.</td></tr>
<tr><td>The authority complies with its statutory obligations in respect of the budget setting process.</td></tr>
<tr><td>The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.</td></tr>
<tr><td>The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.</td><td>Annually the Council approves the budget strategy which includes the Treasury Management Strategy and the Investment strategy. These strategies comply with the prudential code. The Council will also report its compliance with these strategies twice a year.</td></tr>
<tr><td>The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.</td><td>Annually as part of the draft budgeting setting process, the draft budgets are issued for consultation with partners before they are submitted for formal approval.</td></tr>
</table>

CIPFA financial management standard	How the Council demonstrates it complies
The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	As part of the executive approval process, decision reports are submitted to the Executive which where appropriate contain option appraisals and a recommended course of action. Decisions are published on the Council's website.
The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	Throughout the year monitoring is conducted to identify any variations from what was budgeted and allows for timely corrective action to be taken. Monitoring reports are subject to scrutiny and go to the Overview Select Committee on a periodic basis. This includes the capital and revenue budget monitoring, income collection and treasury management reports.
The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	
The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.	
The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.	Annually the statement of accounts is published and a statement regarding the accounts complying with the CIPFA Code of Practice is included within the statement of responsibilities signed by the section 151 officer. The statement of accounts is audited annually and we regularly receive an unqualified audit opinion.

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.

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.

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.

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).

Movement In Reserves Statement

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

National Non-Domestic Rate (NNDR)

Represents the rate of taxation on business properties. Central Government have the responsibility for setting the rate and Local Authorities are responsible for the billing and collection of the tax. Income is shared between Central Government, the Council and Leicestershire Fire authority.

Net Book Value

The amount at which non-current assets are included in the balance sheet. It represents historical cost or current value less the cumulative amounts provided for Depreciation or Impairment.

Net Expenditure / Net Cost of Service

The actual cost of a service to an organisation after taking account of all income charged for services provided.

Non-Current Assets

Assets that yield benefits to the Council for a period of more than one year, examples include land, buildings and vehicles.

Operating Lease

A lease where an asset is used only for a small proportion of its economic life.

Operational Assets

Fixed assets held and occupied in the pursuit of strategic or service objectives.

Outflow

This represents cash going out of the Council.

Precept

An amount charged by another authority to the Council's Collection Fund. There are two preceptors on Leicester's collection fund: the Police and Crime Commissioner and the Leicestershire & Rutland Combined Fire Authority.

Prior Period Adjustments

These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors.

Principal

Is where the authority is acting on its own behalf.

Private Finance Initiative (PFI)

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

Provision

An amount of money set aside in the budget to meet liabilities that are likely or certain to arise in the future, but which cannot be quantified with certainty.

Public Works Loan Board (PWLB)

A government agency providing long and short-term loans to local authorities. Interest rates are generally lower than the private sector, and slightly higher than the rates at which the Government may borrow.

Remuneration

All sums paid to or receivable by an employee and sums due by way of expenses allowances and the monetary value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

Revaluation Reserve

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

Note References

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

Please ask for: Amy Oliver
Director of Finance
Email Amy.Oliver@leicester.gov.uk
Date: 18 April 2024

Leicester City Council

Grant Thornton UK LLP
17th Floor
103 Colmore Row
Birmingham
B3 3AG

Dear Sirs,

Leicester City Council
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Leicester City Council for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the Council financial statements give a true and fair view in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 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 2022/23 ("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 noncompliance. 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.

Leicester City Council
115 Charles Street
Leicester
LE1 1FZ

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 property, plant and equipment and the valuation of the net pension liability 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.

Leicester City Council
115 Charles Street
Leicester
LE1 1FZ

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, both quantitively and qualitatively, 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. 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 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.

d. 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

xv. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xvi. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of noncompliance.

xvii. We have considered whether the Council is required to reflect a liability in respect of equal pay claim within its financial statements. We confirm that we are satisfied that no liability needs to be recognised on the grounds that the Council applies the Greater London Provincial Council job evaluation scheme and there are no liabilities to recognise in respect of task and finish practices. The Council's process has been subject to recent audit, which concluded that the JE scheme used "should provide reliable and consistent job evaluation results".

xviii. We have considered whether the Council is required to reflect the impact of any buildings identified to have reinforced autoclaved aerated concrete (RAAC). We confirm that we are satisfied that the impact of RAAC-related issues on the Council's estate is not material.

xix. The prior period adjustments disclosed in Note 14 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

Information Provided

xviii. 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 from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware.

xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi. 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.

xviii. 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.

xxiii. 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.

xxiv. 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.

xxiv. 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.

xxv. 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

xxvi. 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

xxvii. 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 Governance and Audit Committee at its meeting on 18 April 2024.

Yours faithfully,

Name……………………..

Position…………….………..

Date…………….………..

Name……………………..

Position…………….………..

Date…………….………..

Signed on behalf of the Council

Leicester City Council
115 Charles Street
Leicester
LE1 1FZ

External Audit Annual Report 2022/23 (The Value for Money Report)

Governance & Audit Committee

Date of meeting: 18 April 2024

Lead director/officer: Amy Oliver, Director of Finance

Useful information

- ■ Ward(s) affected: All
- ■ Report author: Kirsty Cowell
- ■ Author contact details: kirsty.cowell@leicester.gov.uk
- ■ Report version number: 1

1. Summary

To present the report by Grant Thornton on the External Audit Annual Report 2022/23 (The Value for Money report)

2. Recommended actions/decision

2.1 The Governance & Audit Committee is recommended to note the report (attached at Appendix 1) to those charged with Governance and pass any comments to the External Auditor.

3. Background and options with supporting evidence

3.1 The External Auditors are under the Local Audit and Accountability Act 2014 to satisfy themselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

3.2 The Code of Audit Practice issued by the National Audit Office (NAO) requires the External Auditor to report to those charged with Governance their commentary relating to proper arrangements.

4. Detailed report

4.1 The external auditors, Grant Thornton against specified criteria

- Financial Sustainability
- Governance
- Improving economy, efficiency and effectiveness

4.2 The report includes notification of use of auditor’s powers, there were none used during the reporting period.

4.3 The report lays out recommendations and provides updates on previous recommendations.

4.4 Further details are outlined in Appendix 1.

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

<u>5.1 Financial implications</u>

The report is exclusively concerned with financial issues.

<u>5.2 Legal implications</u>

There are no direct legal implications arising from this report. Kevin Carter, Head of Law, Ext 37 4197

5.3 Equalities implications

Under section 149 of the Equality Act 2010, the ‘general duty’ on public authorities is set out as follows: A public authority must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act. To advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it, To foster good relations between persons who share a relevant protected characteristic and persons who do not share it. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying ‘due regard’ in our decision making in the design of policies and in the delivery of services. The Code specifies the principles and practices of accounting required to prepare financial statements which give a true and fair view of the financial position and transactions of a local authority. There are no direct equality implications arising from the report. Equalities Officer, Surinder Singh, Ext 37 4148

5.4 Climate Emergency implications

There are no significant climate emergency implications directly associated with this report. Aidan Davis, Sustainability Officer, Ext 37 2284

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

N/A

6. Background information and other papers:

N/A

7. Summary of appendices:

Appendix 1 - Auditor’s Annual Report on Leicester City Council 2022/23

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

No

9. Is this a “key decision”? If so, why?

No

Auditor's Annual Report on Leicester City Council

2022/23

April 2024

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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.

Executive summary

Value for money arrangements and key recommendation(s)

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 required to report their commentary on the Council's arrangements under specified criteria and 2022/23 is the third year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below.

Criteria	2021/22 Auditor judgement on arrangements	2022/23 Risk assessment at planning	2022/23 Auditor judgement on arrangements
Financial sustainability	No significant weaknesses in arrangements identified, but two improvement recommendations made.	Risk of significant weakness identified.	Significant weakness identified and one key recommendation raised.
Governance	No significant weaknesses in arrangements identified or improvement recommendation made.	No risks of significant weakness identified	No significant weaknesses in arrangements identified but three improvement recommendations raised.
Improving economy, efficiency and effectiveness	No significant weaknesses in arrangements identified or improvement recommendation made.	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but one improvement recommendation made.

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

Executive summary

Financial sustainability

In February 2022, the Council set a net expenditure budget of £332m. The budget proposed a tax increase of 2.99% which is the maximum allowable without a referendum. The budget was balanced with the assumption that £24.2m of reserves would need to be used, specifically from the Managed Reserves Strategy. The Managed Reserves Strategy represents a reserves balance available for the Council to draw on to fund revenue budget gaps and pressures. The Council reported a £4.4m overspend in 2022/23 which was funded by an additional draw on the Managed Reserves Strategy.

The Q2 budget monitoring report (for April 2023 to September 2023) showed the Council to be forecasting a £10.2m net overspend position on the 2023/24 budget. Since then, the Council has produced the Q3 monitoring report (April 2023 to December 2023) which is showing a £2.1m net overspend though the Council acknowledges that 'this does not fairly represent the significant financial pressures the Council is facing.'

The draft 2024/25 budget shows the Council to be in a risky financial position. As stated in the report: "we have the real probability of not being able to balance our budget in 2025/26, necessitating a formal report under section 114 of the Local Government Finance Act 1988." The 2024/25 budget will exhaust the managed reserves strategy balance and begin the Council's drawing of its emergency reserves balance. The Mayor noted in his letter to the Department of Levelling Up, Housing and Communities that a Section 114 notice would be 'almost inevitable' before the 2025/26 budget.

Due to the significance of these matters, we have identified a significant weakness in the Council's arrangements with regard to its financial sustainability. We have raised a key recommendation which has been accepted by management. See page 8 for more detail.

Governance

Our work has not identified any evidence which leads us to conclude that there are significant weaknesses present which require key recommendations to be raised. We raise three improvement recommendations.

Overall, the Council has appropriate risk management arrangements in place. The Council has made recent changes to strengthen the risk management processes which are proving to be comprehensive and robust. We raise an improvement recommendation in this area to further develop the presentation of the risk registers. There is an effective internal audit and counter fraud service in place.

There are effective audit committee arrangements in place. We raise an improvement recommendation for the Council to consider appointing an additional independent member to the committee.

The Council has generally appropriate budget setting and monitoring arrangements though we raise one improvement recommendation in this area to improve presentation of reporting.

Improving economy, efficiency and effectiveness

Our work has not identified any evidence which leads us to conclude that there are significant weaknesses present which require key recommendations to be raised. We raise one improvement recommendation.

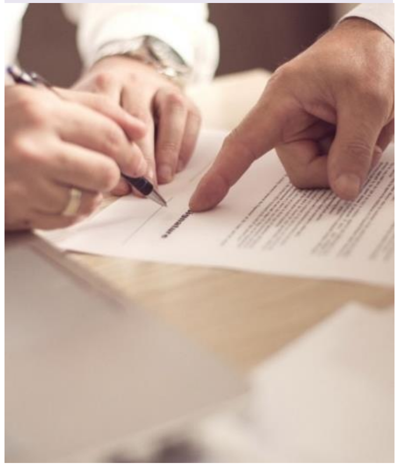
The Council has arrangements in place to use performance information to assess performance and identify areas for improvement. We raised an improvement recommendation to encourage greater public reporting on progress against each key performance indicator (KPI) linked to its key strategic priorities.

The Council takes a proactive approach to partnership working and identifying potential stakeholders to engage with.

There are appropriate procurement arrangements in place.

Financial Statements opinion

We have substantially completed our audit of the Council's financial statements and currently propose to issue an unqualified audit opinion, following the Governance & Audit Committee meeting on 18 April 2024. Our summary findings are set out on pages 25 to 26.



Use of auditor's powers

We bring the following matters to your attention:

	2022/23
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.	We did not make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not make an application to the Court.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue any advisory notices.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We did not make an application for judicial review.

Key recommendation

Key Recommendation 1

The Council should re-consider all aspects of service delivery in order to ensure financial sustainability with efforts being directed toward:

- The identification and delivery of savings that reduce the indicative budget gap in 2024/25 and in future years, along with supporting the replenishment of reserves. These savings should be realistic, evidence-based targets as opposed to unachievable or overly-optimistic.
- Reducing reliance on one-off measures to support the revenue budget (including non-recurrent savings, one-off grants and reserves)
- Rebuilding the reserves balance to ensure it can be maintained to provide financial security and cushioning in the future

Difficult decisions are likely to be required in future budgets. The Council should therefore ensure:

- that its financial planning demonstrates and reports a clear understanding of statutory versus discretionary areas of spend,
- that those discretionary areas can be managed within the available financial envelope, and
- If required, how the reduction or removal of services in its long term plan fits with its organisational strategy and the priorities of stakeholders.

270

Criteria impacted by the significant weakness

Financial sustainability

Auditor judgement

Based on the Council's current financial projections the increasing budget gaps will need to be supported by the use of reserves with both managed and general fund working balance reserves will be exhausted by 2025/26. The Council is developing responses but currently there is no clear or robust plan to address this gap and we consider that the Council is therefore having to place an over-reliance on non-recurrent measures to reduce the financial shortfall. Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. We have therefore identified a significant weakness in arrangements.

Management comments

Work has commenced on a sustainable plan to reduce growth pressures in social care and homelessness budgets and identifying savings options to balance 2025/26 budget including capital options. This work is expected to continue to identify options for a sustainable future.

Progressing the actions management has identified to address the recommendations made will support the Council in addressingthe weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

The range of recommendations that external auditors can make is explained in Appendix B.

Securing economy, efficiency and effectiveness in the Council's use of resources

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

271

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

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

Improving economy, efficiency and effectiveness

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

Our commentary on the Council's arrangements in each of these three areas, is set out on pages 10 to 23.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications

The current local government landscape

National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

The current local government landscape

Local context

Leicester City Council is a unitary authority in the East Midlands, consisting of 54 councillors, representing 21 wards in the city, overseen by a directly elected mayor. It is currently controlled by the Labour Party and has been led by mayor Sir Peter Soulsby since 2011 (Appendix A1 summarises the Mayoral model). The council also appoints a ceremonial Lord Mayor who chairs council meetings; the directly elected mayor is termed the City Mayor to distinguish the post from the Lord Mayor. As a unitary authority, the council is responsible for running nearly all local services in Leicester with the exception of the Leicestershire Fire and Rescue Service and Leicestershire Constabulary. These are run by joint boards of the city council with Leicestershire County Council and Rutland County Council.

The Council traces its roots to the Corporation of Leicester, it was reformed to a municipal borough in 1836. The borough was then led by a corporate body formally called the "mayor, aldermen and burgesses of the borough of Leicester", which was generally known as the corporation or town council. In 1919 Leicester was awarded city status, after which the corporation was formally called the "mayor, aldermen and citizens of the city of Leicester", also known as the city council. In 1928 the council was given the right to appoint a Lord Mayor. The Corporation was replaced in 1974 under the Local Government Act 1972, with the modern Leicester City Council, a non-metropolitan district. This was a lower tier district-level authority, with county-level services being provided to the city by Leicestershire County Council for the first time. Leicester regained its independence from the county council in 1997 when it was made a unitary authority as part of the 1990s UK local government reforms.

Leicester is the largest city in the East Midlands. Leicester City Council employs more than 11,000 staff, who are responsible for delivering services to a diverse range of customers. The greater Leicester urban area had a population of 559,017 in 2021, making it the 11th most populous in England, and the 13th most populous in the United Kingdom. In 2023, Leicester was named as the best place to live and work in the East Midlands.

Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures 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
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

2022/23 financial performance

In 2022/23, the Council was still feeling the impacts of COVID-19 whilst the funding from government to meet these additional costs ceased. We note that there were additional pressures in budget costs with inflation levels not seen in over 20 years, interest rates at pre banking crash levels, Brexit and supply chain issues. It is clear that councils were facing a difficult national backdrop against which to make decisions to ensure future financial sustainability.

In February 2022, the Council set a net expenditure budget of £332m. The budget proposed a tax increase of 2.99% which is the maximum allowable without a referendum.

The budget was balanced with the assumption that £24.2m of reserves would need to be used, specifically from the Managed Reserves Strategy. The Managed Reserves Strategy represents a reserves balance available for the Council to draw on to fund revenue budget gaps and pressures.

The Council reported a £4.4m overspend in 2022/23 which was funded by an additional draw on the Managed Reserves Strategy.

The overspend was primarily driven by high inflation, significantly increased energy costs, higher than budgeted pay awards and continuing, but reducing, pandemic related income shortfalls. On the other hand, rising interest rates meant that investment income increased beyond what was budgeted. Overall, the forecast overspend reduced during the year and the final overspend position of £4.4m was lower than the £10.3m forecast at period 9. This reduction was mainly due to vacancies and the receipt of one-off grant funding.

Children's services continues to experience pressure in the budget for children's placement due to the number of children in need of care and the level of support required. Significant cost pressures continue to be experienced in procuring home to school transport for children with special educational needs.

The Council started 2022/23 with £83.3m in Managed Reserves and ended the year with £65.8m (use of £17.5m reduction).

In terms of savings, directors at the Council work to identify savings throughout the course of the financial year to help reduce the scale of future deficits. Where savings are made as part of a service review, decisions are taken through a decision report. Where savings are incidental or can be made through management action, the Council seek approval to budget adjustments through routine budget monitoring reports. The Council reported savings in the monitoring reports in 2022/23 of period 3, 6 and 9. In the period 9 report, the Council noted £414k of savings.

2023/24 financial performance

The Local Government Finance Settlement 2023/24 was challenging but more generous than most authorities were expecting. The Spending Review total for local government increased by £1.6 billion in 2022/23 and in 2023/24 the Review stated that this would be the same 'cash' level as 2022/23. Though the impact of COVID-19 on Council finances has reduced significantly, the current predicted high inflation rates and cost of living crisis has increased pressure on Council budgets. Inflation, in particular, is presenting as a considerable cost pressure in 2023/24 budgets, impacting Council costs.

Financial sustainability

The Council set a net expenditure budget in February 2023 of £382.7m, a 15% increase from the previous year. The budget proposed a 4.99% council tax increase, which is the maximum amount allowable without a referendum.

The budget assumed £34.1m would need to be used from Managed Reserves to balance the 2023/24 position.

The Q2 budget monitoring report (for April 2023 to September 2023) showed the Council to be forecasting a £10.2m net overspend position on the 2023/24 budget. Since then, the Council has produced the Q3 monitoring report (April 2023 to December 2023) which is showing a £2.1m net overspend though the Council acknowledges that 'this does not fairly represent the significant financial pressures the Council is facing.' The Council is experiencing significant cost pressures totalling £21.1m. These are largely offset by £15.4m of underspends and additional income and the use of £3.6m of contingencies.

In total, savings identified since the budget was set have reduced expected spend by £3.5m in the current year. This will allow the call on managed reserves this year to be reduced from the budgeted amount, originally £34.1m. However, it is important to note that the overspend position offsets the impact of the savings on the call on reserves. Table 1 below shows the Council's forecast medium term gap as at budget setting in February 2023. Table 2 on the page overleaf is from the final 2024/25 budget and shows the increase in the budget gap since 2023/24 budget setting to £61m for 2024/25. As is evident from both tables, the Council's Managed Reserves balance is insufficient to meet the growing budget gap should it need to be served by this balance.

	2023/24 £m	2024/25 £m	2025/26 £m
Total Expenditure	382.7	414.2	442.0
Total Income	(348.6)	(370.0)	(377.6)
Budget Gap	34.1	44.2	64.4

Table 1: The medium term budget gap

Source: Revenue Budget 2023/24, 21 February 2023

2024/25 and the medium term

The Council has acknowledged in its Medium-Term Financial Plan (MTFP) that the outlook beyond 2023/24 remains uncertain. In an atmosphere of political and international uncertainty, economic challenges such as inflation, increased interest rates, lack of clarity on future finance settlements and the long-term impact of greater service demand, authorities are tasked with the difficult task of demonstrating a resilient and sustainable position from which to weather shocks.

In the 2023/24 budget, the Council noted: "the medium term financial outlook is the most severe we have known, in our twenty six years as a unitary authority."

The 2024/25 budget shows the Council to be in a financially risky position. As stated in the report: "we have the real probability of not being able to balance our budget in 2025/26, necessitating a formal report under section 114 of the Local Government Finance Act 1988."

The 2024/25 budget will exhaust the managed reserves strategy balance and begin the Council's drawing of its emergency reserves balance. As shown in Table 2 overleaf, the Council are forecasting the need to use £7.1m of its emergency reserves which stood at £15m as at 31st March 2023. The Council are then forecasting a gap in 2025/26 which vastly exceeds its Managed Reserves balance – increasing the likelihood of setting an unlawful budget for that year (where expenditure exceeds income to an unsustainable degree). The Council states in the 2023/24 budget report: "we do not have enough money – we estimate reserves will run out part way through 2024/25."

On 24 October 2023, City Mayor Peter Soulsby wrote to the Secretary of State for Levelling Up, Housing and Communities to inform him of the serious budgetary pressures facing the council. The Mayor noted a Section 114 notice would be 'almost inevitable' before the 2025/26 budget.

Financial sustainability

Managed Reserves Strategy	£m
As at 31st March 2021	**70.26**
Contributed in 2021/22	+13.01
As at 31st March 2022	**83.27**
Required for 2022/23 budget	(17.47)
Forecast 31st March 2023	**65.80**
Additional funding identified	+8.50
Required for 2023/24 budget	(30.70)
Forecast 31st March 2024	**43.60**
Required for 2024/25 budget	(61.0)
Shortfall to be funded from Emergency Balance	(7.1)

Table 2: The Managed Reserves Balance

Source: The 2024-25 budget

Short-term risk management

There is evidence of the Council managing financial risks in the short term to seek to relieve these revenue pressures. This is an unsustainable position.

The Council has supported the revenue budget in recent years by drawing substantially from reserves. Running down reserves has been identified by CIPFA as an indicator of an authority in financial stress. As acknowledged by both the Council and CIPFA, using reserves to finance a deficit only provides temporary relief but is not sustainable in the long term. The underlying cost pressures will continue into the future unless further action is taken. The Council acknowledged in our prior year report that it is currently not in a position to be able to replenish the reserves balance. The Council's saving plans also depend on a significant sum of one-off resources (including deleting posts).

The Council has introduced spending and workforce controls during 2023/24 in an attempt to manage the current forecast overspend.

- In November 2023, the Council introduced spending control measures designed to help manage the in-year budget pressures currently being experienced and to ensure the proper administration of financial affairs. As of 1 November 2023, prior approval by the Director of Finance, or a delegated officer, will be required for all spend on goods, works, and services of more than £5,000 (excluding VAT) (with a few exclusions). Consideration for approval will only be given to essential expenditure that is supported by the head of service. A short business case written by the officer making the spending request will be needed for projects up to £30,000. All above £30,000 will go to Strategic Procurement Panel. A purchase requisition must not be submitted on the financial system until approval has been received by the Director of Finance, or a delegated officer.
- The Council has also introduced workforce controls. All requests to recruit substantive and agency workers include additional scrutiny through the Approval to Recruit Board. Overtime Business Cases are to be approved for all above grade 7 overtime, Horaria (new requests and extensions) and job evaluations all require additional scrutiny.

These financial and workforce controls represent short term, unsustainable solutions to the greater issue surrounding the financial sustainability of the Council.

Financial sustainability

Other stress areas

Another area of budgetary stress is the statutory override currently providing relief for the Council's Dedicated Schools Grant (DSG) deficit. The override applies nationally and allows councils to keep deficits on spending for children with special educational needs and disabilities (SEND) off their balance sheets. The override is due to expire on 31 March 2026.

The Council is forecasting the DSG deficit to be £12.9m by the end of 2023/24. The statutory override only provides temporary relief for councils to manage their DSG deficits. When the statutory override expires, unless further government funding is provided then councils will be expected to cover the cost of their DSG deficits themselves. This would likely have to be met from unringfenced general reserves. The risk arises when many councils consider that their general reserves balance may be close to or less than the amount required to fund their DSG deficit. Many councils across the country have now become dependent upon the statutory override to continue functioning. With the statutory override set to expire in 2025/26, there is intense pressure for councils to devise a plan to manage the DSG deficit to mitigate the risk of funding the deficit from reserves and risk fully depleting general reserves balances.

The Council's DSG budget recorded a £3m overspend in 2022/23 resulting from unavoidable overspends driven by demand. The cumulative balance on the DSG reserve is now £6.6m. The Council have developed a deficit recovery plan as all local authorities are required to do, however, this still shows there to be intense pressure on the budget and the Council note the situation to be 'irretrievable without further government support.'

Another CIPFA indicator of financial stress is unplanned overspends. The Council has overspent against its budget for 2022/23 and is forecasting a significant overspend in 2023/24. The Council's previously strong budget management avoided habitual overspends but the authority is no longer able to manage its spend within its financial envelope.

Exploring options

The Council has considered what other usable reserves could be made available to help bridge the shortfall and have identified an earmarked revenue reserve known as the "capital fund". This holds a balance of £99m and comprises set aside revenue monies to fund capital projects.

It could potentially be repurposed to support the revenue budget, but this would be predicated on having a robust asset disposals strategy in place, such that the Council could rely on capital receipts for its capital budget rather than these previously set aside monies.

It is also worth noting that these considerations are in their infancy: work has not been progressed (in respect of producing detailed plans for how this capital fund could be used, for example), beyond identifying the reserve as a potential source of funding. The Council are currently considering asset disposals as part of the set of actions being taken to manage the 2024/25 budget. The Council are in the process of performing an asset review to determine which capital receipts could fund the capital programme gap or could be released for revenue funding. A review of all assets is being undertaken to assess which can and should be sold (and estimate the potential sale price). This will likely lead to a revitalized asset disposal programme. The review will not be limited to buildings & land but will include heritage assets. The Council will interrogate options for all assets and systematically work through options for disposals in multiples of £10m up to (but not limited to) £100m on an agreed priority basis and then create a timeline for disposals. The generated capital receipts can then support the capital programme and revenue budget if necessary.

Conclusion

The Council finished 2022/23 with a £4m overspend that was serviced by the Managed Reserves balance. The Council is presently forecasting a £10m overspend in 2023/24 which is also set to be serviced by reserves. The Council is forecasting to run out of reserves specifically identified to support the budget part way through 2024/25 and has contemplated the probability that it will be unlikely to set a lawful budget for 2025/26 unless solutions are found. The City Mayor has written to the Secretary of State for the Department of Levelling Up, Housing & Communities seeking support. The Council is undoubtedly in financial difficulty, further demonstrated by the commencement of an asset disposals review to consider the sale of assets to service the revenue budget through release of revenue reserves previously set aside for capital projects.

The running down of reserves without a plan to replenish, the introduction of spending and workforce controls, unplanned overspends, the dependency on the statutory override to manage the DSG deficit and consideration of asset disposals to fund revenue budget pressures demonstrate that the Council is in a financially perilous position. This is most greatly demonstrated by the Mayor's letter to the Secretary of State. These factors have led us to conclude that there is a significant weakness in the Council's arrangements to secure financial sustainability in the medium term and have raised a key recommendation.

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

Risk management and internal controls

In March 2023, the Council presented the Risk Management Statement and Strategy to the Governance & Audit Committee. This forms an important part of the council's governance arrangements by providing an effective framework for Leicester City Council (LCC) to manage and respond to key risks facing its services and to support the delivery strategic priorities and objectives.

The Corporate Risk Management Policy Statement and Strategy sets out the council's attitude to risk, the approach to be adopted to manage the challenges and opportunities facing officers. The Council's Risk Management Policy and Strategy are reviewed and updated annually. To date, improvements have been made in strengthening risk management arrangements within the Council's diverse business units. In line with the agreed corporate approach, a review of the Risk Policy and Strategy has taken place to reflect any developments made in the industry and to support internal risk procedures/processes. There have been no major developments that would affect the Council's risk management process. However, an internal development has been made to the Strategic Risk Register (SRR) and the way strategic risks are captured.

The Risk Management Policy Statement and Strategy 2023 outlines the risk management process from risk identification, assessment, management, recording, monitoring, reviewing and communicating/consulting. Risks are assessed using an impact and likelihood scoring. Risks higher than 15 require immediate management action.

At the 22 November 2023 Governance & Audit Committee, the Council presented both the Strategic and Operational Risk Registers.

The Strategic Risk Register (SRR) provides a summary of the strategic risks facing the council which may affect achievement of the strategic objectives of the council. The Operational Risk Register (ORR) provides a high-level summary of the operational risks, which may affect day-today divisional and operational service delivery. The operational risk register are those risks identified and assessed by Divisional Directors as having a risk score of 15 or above. The PESTLE approach, a mnemonic which stands for 'Political, Economic, Social, Technological, Legal and Environmental, has been implemented for the SRR as a framework for considering the wider context and environment, and the risks that this gives rise to.

The November SRR contained 15 risks which we consider to be an appropriate number of risks.

The new approach to risk management has seen the Council change the presentation of the risk registers. Each strategic risk is mapped to a category of PESTLE. A summary of the SRR in relation to each theme is set out. Individual risk owners for the SRR are strategic directors and/or those with statutory roles e.g. Monitoring Officer or Section 151 (this is to ensure robust strategic ownership and oversight of the most significant risks facing the organisation). Each risk in the summary is supported by a more detailed risk control action plan capturing existing risk controls and proposed further actions/controls (unless the risk strategy is to tolerate the risk without further controls).

Risks have a reference number, summary description, risk score with existing controls, a RAG rating, a risk response, risk owner, risk score at 31 May 2023, the variance since the last cycle, the total number of high risks (from the operational risk register) and the ORR risk reference.

We raise an improvement recommendation for the Council to set out the key relevant controls and sources of assurance for each risk in the SRR. These are not currently set out in the latest presentation of the risk registers.

Governance

Internal audit and counter fraud

The Council's internal audit function was delegated to Leicestershire County Council in 2017. The Council had an adequate internal audit service in place during 2022/23. Internal audit delivered a sufficient amount of its annual plan, delivering 95% of planned audits. Internal audit concluded a reasonable assurance audit opinion for 2022/23 demonstrating that there are no significant gaps of assurance in the Council's framework for internal controls.

279

The Head of Internal Audit Service (HoIAS) prepares a risk based internal audit plan to determine the priorities of the internal audit activity, consistent with the Council's goals. The 2023/24 Internal Audit Plan was presented to the September 2023 Governance & Audit Committee.

The Governance & Audit Committee considered the Internal Audit annual plans and monitored delivery and outcomes during the year. The Committee also received the Internal Audit annual reports and opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control. The Committee reserves the right to summon relevant officers to attend its meetings to discuss in more depth specific issues raised by Internal Audit reports. This has helped to maintain the profile of the Committee and its role in promoting adherence to procedures and improved internal control.

Through discussion with internal audit, we learnt that the last time they had been externally assessed for compliance with Public Sector Internal Audit Standards (PSIAS) was five years ago.

The service is in the process of organising to be externally assessed again soon.

The Council has adequate arrangements in place in respect of the prevention and detection of fraud. The Council have an Anti-Fraud, Bribery and Corruption Policy 2022-25 in place. This was reviewed in November 2022 alongside the Whistleblowing Policy. The Council also introduced an Anti-Money Laundering Policy during 2022. The Governance & Audit Committee received the Counter Fraud Annual Report for 2022/23 and 2023/24 Mid Year Update at the 22 November 2023 meeting. The report informs the Committee of the work carried out by the Corporate Investigations Team during 2022/23 and 2023/24 half year April 2023 to September 2023. The work of the Corporate Investigations Team includes proactive data matching (such as Right to Buy applications) and reactive referrals received relating to suspected financial irregularities. These two work types cover the majority of activity. The Council continues to benefit from membership of the National Anti-Fraud Network (NAFN), which alerts member authorities to the latest phishing emails and frauds. These alerts are shared across the Council to ensure awareness is raised and efforts to prevent attempted fraud are enhanced. They are a useful fraud prevention tool as they help to ensure new emerging risks nationally are highlighted.

Audit committee effectiveness

The purpose of the Governance & Audit Committee is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements at the authority. The committee's role in ensuring that there is sufficient assurance over governance, risk and control gives greater confidence to those charged with governance that those arrangements are effective.

We recognise that since the May 2023 elections the make-up of the Committee has changed. We make these comments irrespective of specific make-up and rather of the Governance & Audit Committee in theory.

In terms of reporting arrangements, CIPFA guidance *Audit Committees: Practical Guidance for Local Authorities and Police* (CIPFA, 2022) recommends that the Audit Committee report to full Council: 'the audit committee is an advisory committee on behalf of those charged with governance. As a result, the committee should report to the full council, fire authority or other local government governing body. It is not appropriate to be a sub-committee of the cabinet, scrutiny or policy and resources committee.'

The Terms of Reference of the Governance & Audit Committee for Leicester City Council state that the Committee reports to full Council, therefore complying with CIPFA's good practice recommendation.

To discharge its responsibilities effectively, CIPFA guidance recommends the committee meet at least four times a year. Leicester City Council's Governance & Audit Committee echoes this by including this requirement in its Terms of Reference agreed on 19 July 2023.

In 2022/23, the Committee met 5 times. As stated in the Audit & Risk Committee annual report, the meetings were properly constituted and quorate. The Director of Finance or the Deputy Director of Finance and Leicestershire County Council's Head of Internal Audit and Assurance Service attended meetings of the Committee. In addition, and in the interests of providing the full range of legal, constitutional and financial advice and expertise, the Committee was supported by the City Barrister & Head of Standards or their representatives.

Governance

CIPFA guidance recommends that an authority reports annually on how the Audit Committee has complied with the position statement, discharged its responsibilities and include an assessment of its performance.

In the Terms of Reference, the Governance & Audit Committee states that it will undertake an annual review of its effectiveness and report this to full Council, in line with the guidance. This is also recommended in the Redmond Review (2020).

There is currently one independent member of the Governance & Audit Committee. The new external independent member has attended meetings since September 2022. While this is certainly positive and takes on the Redmond Review (2020) recommendation of including one independent member, CIPFA guidance (2022) recommend the committee includes two co-opted independent members. We raise an improvement recommendation that the Council considers the merits of appointing an additional appropriately qualified independent member to the Governance & Audit Committee.

As per the CIPFA (2022) guidance, the Council 'should establish a programme of support that involves induction training, regular briefings and updates as well as formal training programmes.' As stated in the Governance & Audit Committee Annual Report, arrangements continue to be made for members for training on relevant topics. Members received a bespoke training in November facilitated by a specialist from CIPFA.

Budget setting and monitoring

The Council has appropriate budget setting arrangements. A local authority's budget provides the financial basis for the allocation of resources, the delivery of services and the management of the organisation over the period of one financial year.

Authorities are required by statute to set and agree an income and expenditure prior to the beginning of the financial year to which the budget relates.

The Council sets a three-year medium term plan every year with the Council Tax resolution being approved by Full Council in the February prior to the start of the financial year. The MTFP is updated annually.

The 2023/24 budget was approved by Full Council in February 2023.

By law, the role of budget setting is for the Council to determine:

a) The level of council tax;

b) The limits on the amount the City Mayor is entitled to spend on any service ("budget ceilings");

Budget ceilings are prepared for each service, calculated as follows:

a) The starting point is last year's budget, subject to any changes made since then which are permitted by the constitution (e.g. virement);

b) An allowance for non-pay inflation is added to the budgets for independent sector adult social care (2%), foster care (2%) and the waste PFI contract (RPI, in line with contract terms). Apart from these areas, no allowance was made in the 2022/23 budget for non-pay inflation. Should the levels of inflation outstrip the budget, the contingency was available if required;

c) Unavoidable growth is built into the budget. This includes provision for the increase in employers' national insurance rates which the Government has announced, to pay for social care reform;

d) Where savings are achievable through management action, these are deducted.

The role of the Council is to determine the financial envelopes within which the City Mayor has authority to act. Notwithstanding the way the budget has been constructed, the law does not enable the Council to determine how the City Mayor provides services within these envelopes: this is within their discretion.

There is adequate internal and external engagement in the budget setting process. The Council send out consultations to key partners in the budget setting process. The responses are highlighted in Appendix 6 of the budget. For example, Leicester Primary Partnership commented on the 2022/23 budget that it supported the plan for a lobbying effort to central government and suggested utilising comparisons with similar authorities to identify any lessons learnt. Financial plans for the year are reviewed and approved by budget holders and by the senior leadership team.

The Council continuously reviewed budgets throughout the year and took savings once identified which helped reduce the scale of expected future deficits. Though there are generally appropriate arrangements in place, we could not find evidence of scenario modelling. We raise an improvement recommendation encouraging the Council to include within its regular in-year and outturn reports to the Overview Select Committee and/or Governance & Audit Committee a clear forecast for the year-end outturn with scenarios at a best, worst and most likely.

Conclusion

We are satisfied with the Council's governance arrangements. We have raised three improvement recommendations relating to risk management, Governance & Audit committee arrangements and budget setting.

Improvement recommendations

Improvement Recommendation 1	We raise an improvement recommendation to improve the presentation of the Strategic Risk Register by including the key relevant controls and assurance and setting these out for each strategic risk reported to Governance & Audit.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	**Accepted, and the presentation of future reports will be adapted to included key relevant controls & assurance for strategic risks.**

Progressing the actions management has identified to address the recommendations made will support theCouncil in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementationto gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 2	We recommend that the Council consider the merits of appointing an additional independent member to the Governance & Audit Committee as per the CIPFA (2022) guidance Audit Committees: Practical Guidance for Local Authorities and Police.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	**This recommendation will be considered.**

282

Progressing the actions management has identified to address the recommendations made will support theCouncil in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementationto gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 3	We raise an improvement recommendation encouraging the Council to include within its regular in-year reports to the Overview Select Committee and/or Audit Committee, alongside its year-end forecast outturn, consideration of best and worst-case outturn scenarios in relation to the Council's key financial risks/mitigations.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	**This recommendation will be considered.**

Progressing the actions management has identified to address the recommendations made will support theCouncil in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementationto gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improving economy, efficiency and effectiveness

We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance

The Council has arrangements in place to use performance information to assess performance and identify areas for improvement.

As per the Constitution, it is the role of Scrutiny Committees to hold Members to account by reviewing and scrutinising policy and practices. This includes reviewing and scrutinizing the decisions made by and the performance of the City Mayor, Executive, Committees and Council officers. Scrutiny Committees also develop policy, generate ideas, review and scrutinise the performance of the Council in relation to its policy objectives, performance targets and/or particular service areas and question the City Mayor, members of the Executive, committees and Directors about their decisions and performance, whether generally in comparison with service plans and targets over a period of time, or in relation to initiatives or projects.

The Council defines outcomes in terms of sustainable economic, social and environmental benefits through the City Mayor's strategic vision which contain a number of key pledges and which have been regularly scrutinised:

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

In February 2023, the Overview Scrutiny Committee (OSC) received a report titled 'Key Strategic Priorities' which asked the Committee to comment on progress in relation to the Council's progress against the key strategic priorities and commitments of the Council. The report showed a summary of progress against the key strategic priorities based on each theme for 2019 to 2023. Of the 96 original commitments, 76% had been classed as completed and 19% were still in progress, 5 of the commitments were no longer appropriate. The commitments were broken down into 9 theme areas.

Some of the key outcomes from the Mayor's pledges in 2022/23 have been: investment in regeneration schemes, including three significant levelling up schemes, investment in council housing, work with local businesses and residents to support them through the cost of living crisis.

While the Council has performed well against its strategic priorities for 2022/23, we raise an improvement recommendation. We note that the Council do not currently publicly report on progress against each key performance indicator (KPI) linked to its key strategic priorities. At present, the performance reporting provides an overall summary of progress, informing users of the percentage of commitments achieved versus not achieved. Users therefore do not gain an understanding of which of the commitments the Council is performing well in versus those it is performing less well in. We recommend including, in the least as an appendix, greater detail on the individual performance indicators. The Council clearly have a suite of key performance indicators against which they measure performance. These are presumably aligned to its strategic objectives. These are known internally but are not currently shared publicly/externally.

Improving economy, efficiency and effectiveness

We now recommend that the Council:

- publicly explain how these indicators are derived (e.g. statutory obligation);
- for each KPI, outline a performance target which meets the service quality the Council wishes to deliver;
- for each KPI, state performance against this target, how the performance has changed over time and consider benchmarking against near neighbours (NNs) as appropriate.

Partnership working

The Council takes a proactive approach to partnership working and identifying potential stakeholders to engage with.

Integrated Care Systems (ICS) were created as part of the Health and Care Act 2022 and became statutory from July 2022. Upper tier and unitary Local Authorities are required to be members of ICSs as key partners. NHS Leicester, Leicestershire and Rutland (LLR) is the Integrated Care Board (ICB) for LLR. The ICB began operating on 1 July and replaced the Leicester City, East Leicestershire and Rutland and West Leicestershire clinical commissioning groups. The role of the ICB is to develop a plan to meet the health needs of the population and to arrange and manage the budget for the provision of NHS services in LLR. The Council works alongside ICB partners to support the vision for a healthier place with healthier people and healthier futures.

Community Safety Partnerships were introduced by Section 6 of the Crime and Disorder Act 1998 and bring together local partners to formulate and deliver strategies to tackle crime and disorder in their communities. Responsible authorities that make up a Community Safety Partnership are the Police, Fire and Rescue Authority, Local Authorities, Health Partners, and Probation Services. They work on the principle that no single agency can address all drivers of crime and antisocial behaviour, and that effective partnership working is vital to ensuring safer communities. Leicester's Community Safety Partnership renewed its Community Safety Plan for 2021 to 2024. This plan sets out the partnership's strategic priorities and delivery themes and how the partnership brings together people, agencies and resources to make Leicester a safer place to live, work and visit.

One of the strategies pursued by the Community Safety Partnership surrounds the issue of safer night time economies for women. This was discussed in the 'Enhancing Women's Safety in Leicester' report presented to the March 2022 Overview Select Committee. The partnership has been supporting a safer Leicester for women and girls over a number of years. It has been through the work of the Safer Leicester Partnership that Leicester City Council for example, achieved purple flag status in 2019/20.

The Council also manage funds for the Combined Fire Authority and the Leicester & Leicestershire Enterprise Partnership. Reporting on the management of these funds is via the Treasury Management reports and updates which are taken to Overview Select Committee twice a year. It is important to note that as of 1 April 2024, central government has ceased funding for LEPs, leading to their abolishment.

Procurement

The Council has Contract Procedure Rules which govern the making of contracts for and on behalf of the Council. The CPRs form part of the Council's Constitution and is reviewed regularly.

There is also a Sustainable Procurement guide to aid procurement and contract management.

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

The revised Contract Procedure Rules were approved on 19th March 2020. 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 £5,000 upwards and looking two years ahead where possible. The Contract Procedure Rules require the Head of Procurement to report a summary of waivers (not exemptions) of the Rules to the Executive and Audit & Risk Committee. The increase over the last few years due have been Covid related and have reduced now this has settled down. The decrease is also because of a more robust challenge to all waivers and exemptions submitted.

Improving economy, efficiency and effectiveness

Waivers in 2021/22 were 62 and valued at total £39m and in 2022/23 this has decreased to 40 waivers with total value £6m.

The Governance & Audit Committee also have responsibilities with regard to procurement. The Committee must receive and note the annual report setting out the Council's performance against the Procurement Plan and compliance with Contract Procedure Rules (including data on waivers), the Committee considers any proposals for changes to the rules to be made to full Council and review any changes to the rules made by the City Barrister or any changes to thresholders and seeks assurance that the Council has appropriate arrangements to identify and manage risks, ensure good governance, and obtain assurance on compliance in its procurement activity. This is outlined in the Governance & Audit Committee's Terms of Reference.

286

Conclusion

We are satisfied with the Council's arrangements to secure economy, efficiency and effectiveness. We raise one improvement recommendation relating to performance information and using information to improve.

The Council has appropriate arrangements in place for performance monitoring. Partnership working continues to be operating effectively. The procurement function also appear to be functioning adequately.

Improvement recommendations

Improvement Recommendation 4	We note that the Council do not currently publicly report on progress against each key performance indicator (KPI) linked to its key strategic priorities. At present, the performance reporting provides an overall summary of progress, informing users of the percentage of commitments achieved versus not achieved. Users, therefore, do not necessarily gain an understanding of which of the commitments the Council is performing well in versus those it is performing less well in. We recommend including, in the least as an appendix, greater detail on the individual performance indicators. The Council clearly have a suite of key performance indicators against which they measure performance. These should be aligned to its strategic objectives. These are known internally but are not currently shared publicly/externally. We now recommend that the Council: • publicly explain how these indicators are derived (e.g. statutory obligation); • for each KPI, outline a performance target which meets the service quality the Council wishes to deliver; • for each KPI, state performance against this target, how the performance has changed over time and consider benchmarking against near neighbours (NNs) as appropriate.
Criteria impacted	Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Management comments	**Agreed the Council will review reporting of KPIs in relation to the Corporate Delivery Plan.**

287

Progressing the actions management has identified to address the recommendations made will support theCouncil in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementationto gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date (information provided by the client)	Addressed?	Further action?
Outstanding from 2020/21 Auditor's Annual Report						
1	Consideration should be given to more formal, explicit monitoring, at a Member level, of the extent to which proposed savings are realised.	Improvement	March 2022	Nearly all savings to date have not been major projects and the route to achievement is obvious (e.g. deleting vacant posts, increasing charges). These savings have not required formal monitoring. Where formal management is required (e.g. the Ways of Working project) more formal monitoring has been put in place for these. The COO will meet regularly with directors to hold them to account for service delivery.	No	The recommendation is outstanding.
From 2021/22 Auditor's Annual Report						
1	**Use of reserves** The Council should revisit financial plans with the sustainability of reserves in mind to ensure medium term financial plans demonstrate a realistic plan for maintaining reserves at sustainable levels where one-off use is expected to cover budget gaps.	Improvement	September 2023	We recognise the importance of setting balanced budgets. Plans are currently being reconsidered in light of the significant deterioration experienced in our financial position.	No	Key recommendation 1 raised in 2022/23 report. The key recommendation now supersedes this improvement recommendation.
2	**Savings** We recommend that: - the Council continues to ensure its focus is on making credible savings plans and strengthening the supporting monitoring and reporting arrangements around delivery of those plans so that they are sufficiently robust to support the realisation and accountability for the large-scale savings necessary to bridge the forecast budget gap; - focuses its financial planning on reducing reliance on one-off measures and attain a balanced budget position without the need for using reserves as soon as possible, including properly considering opportunities to review service delivery, particularly the prioritisation of statutory versus discretionary spend.	Improvement	September 2023	We recognise the importance of setting balanced budgets. Plans are currently being reconsidered in light of the significant deterioration experienced in our financial position.	No	Key recommendation 1 raised in 2022/23 report. The key recommendation now supersedes this improvement recommendation.

Opinion on the financial statements

Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2023 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

We are currently in the process of completing our audit of your financial statements. We anticipate being able to issue our opinion in April 2024. From our work completed to date we anticipate issuing an unqualified audit opinion. We report our detailed findings in our final Audit Findings Report (AFR). We took a draft AFR to the Governance & Audit Committee on 22 November 2023 and propose to take a final AFR to the 18 April 2024 meeting and summarise our conclusions in a final version of this report once our work is complete.

Opinion on the financial statements 2022/23

Audit opinion on the financial statements

As noted on the previous page, we have substantially completed our audit of your financial statements and propose to issue an unqualified audit opinion, following the Governance & Audit Committee meeting on 18 April 2024.

Other opinion/key findings

We anticipate issuing unmodified opinions in respect of other information.

We do not anticipate reporting any matters by exception.

Audit Findings Report (AFR)

We took a draft AFR to the Governance & Audit Committee on 22 November 2023 and propose to take a final AFR to the 18 April 2024 meeting. The key findings to date are summarised below.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. The Council is below the threshold requiring detailed audit procedures. We propose to issue our assurance statement to the NAO alongside our audit opinion on 18 April 2024.

Preparation of the accounts

The Council published draft accounts on 2 June 2023, very slightly after the national deadline of 31 May.

We started our audit in line with our agreed timeline with the Council. As noted opposite we have continued to encounter significant difficulties in our audit of the Council's Property, Plant & Equipment valuations, specifically its other land and buildings, which are valued by the Council's internal valuation team. This year we have also identified a number of errors in our sampling which has led to additional work. This has extended the overall timeline of the audit but we have continued to work constructively with the Council to bring the audit to a conclusion.

Issues arising from the accounts:

At the time of writing, the impact of the audit adjustments on the statement of financial position is £27.8m. There will be an impact on the Council's reported net expenditure position but, through the way that the local government statutory accounting framework works, not on the general fund (and hence not on resources available for services).

There are also misstatements we have identified from our work, primarily in the areas of recording income in the incorrect year, PP&E revaluations and valuations, capital additions and school balances, that the Council are not minded to amend the accounts for, which have a net impact on the comprehensive income and expenditure statement of £6,327k.

In our previous Audit Findings Report, we noted that there had been delays to the completion of the audit with queries that were still outstanding, most notably in respect of Property, Plant and Equipment (PP&E). This work has now been completed, however we have been reporting issues in the valuation process since 2019/20, recommending each year that the Council improve in this area and it is disappointing to have such findings recur. This was due to several factors, but particularly a change in personnel, coupled with a lack of documentation, has led to the valuations team redoing an element of the valuation work, as the previous work could not be supported.

Additionally, the identification of a number of errors in our sampling, has led to additional work, and in some cases, extended testing in the areas of valuation of council dwellings, grants, debtors, additions, expenditure completeness, FTE data and journals.

To date there are no matters of which we are aware that would require modification of our audit opinion, subject to review of the final version of the accounts and consideration of the total unadjusted misstatements in line with our materiality threshold.

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.

Appendices

Appendix A: Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

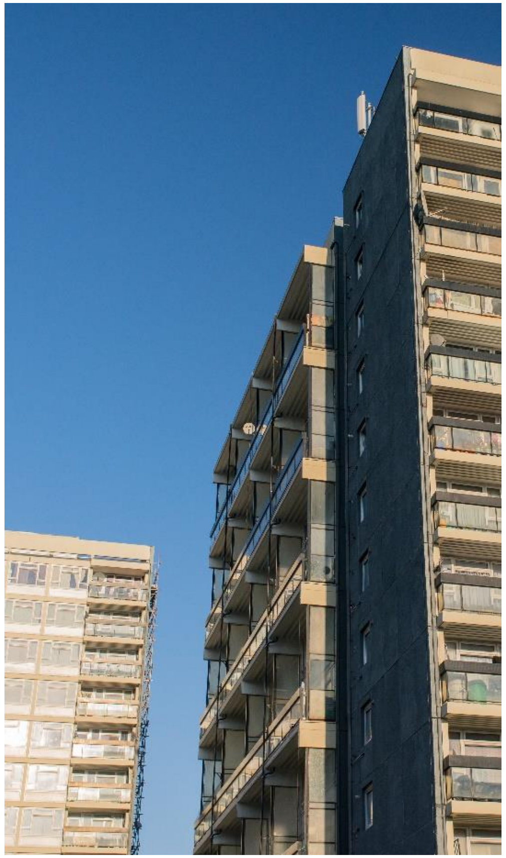
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



Appendix A1
Mayoral Arrangements

The Council is led by a City Mayor elected directly by the people of Leicester for a fixed four year term. How the Council operates is set out in its constitution which can be found here [Our constitution (leicester.gov.uk)].

The City Mayor, Mayoral Team and the Executive

The City Mayor appoints a Statutory Deputy City Mayor and between one and eight Deputy/Assistant City Mayors from the 54 Councillors, to work with him. Together they are described in this Constitution as the Executive.

Full Council

Full Council comprises all 54 Councillors elected every 4 years who represent the 21 wards of the City. The overriding duty of Councillors is to the whole community, but they have a special responsibility to the constituents of their ward. All Councillors and the City Mayor meet together as the Full Council. These meetings are open to the public and the press but sometimes the Council considers personal or confidential matters and it can choose to do so in private if appropriate.

The Full Council sets the broad Policy and Budget Framework within which the Council including the City Mayor and his Executive operates. The Full Council is chaired by the Right Worshipful the Lord Mayor of Leicester. This role is a ceremonial and civic one.

How decisions are made

Decisions are taken either by Full Council, the City Mayor, members of the Executive (either individually or collectively with the City Mayor), committees, or officers, according to rules set out in the Constitution.

The City Mayor is personally responsible for taking major decisions about many aspects of what the Council does. He can either take these decisions himself, delegate these to other Councillors on the Executive or to officers or take them collectively with Executive colleagues.

Certain business considered by the Executive is defined as a 'Key Decision'. These key decisions are included on the Forward Plan which is a document that is published every month with details of the decisions to be taken over the next four months. The Constitution sets out a specific definition of what are key decisions. In summary these are decisions where the Council will incur significant expenditure/savings, or which have a significant impact on communities in two or more wards in the City. Some decisions, due to legislation, or as a matter of local choice, can only be taken by Full Council. In some cases, Full Council can delegate these decisions to committees of Councillors or specified officers.

How the Council is scrutinised

Councillors who are not on the Executive are responsible for keeping an overview of Council business including scrutinising areas of particular interest or concern, holding the Executive to account for the decisions that are made, and assisting in the development and review of Council policy. This role is undertaken by Scrutiny Committees/Commissions. The Council has appointed one Overview Select Committee and six Scrutiny Commissions to carry out the scrutiny function.

The Scrutiny Committee/Commissions have the right to scrutinise decisions as they are being formulated, after they have been taken and can ask for decisions to be reconsidered. This is known as "Call-In" and requires the Executive to consider further comments raised by a scrutiny committee or full Council before they are implemented. There is a Scrutiny Handbook that sets out in more detail the work of the scrutiny function.

Council Staff

The Council employs officers to give professional advice to the Executive and Councillors, to implement decisions taken and to manage the day to delivery of services. The Head of Paid Service (Chief Operating Officer) is a statutory role that every Council must have. This person has responsibility for managing all Council staff and decides how the City Mayor, Executive and Councillors should be supported by staff. There are other statutory posts including, the Chief Officer responsible for Children's Services (Director of Children's Services), an officer responsible for the Council's Adult Social Services functions (Director of Adult Social Care), an officer to ensure the Council makes financially proper decisions (Chief Finance Officer) and an officer who ensures the Council acts within the law (Monitoring Officer).

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

Appendix B:
An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference(s)
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	6
Improvement	These recommendations, if implemented, should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	No	17 to 19, 23

294

Grant Thornton

grantthornton.co.uk

Appendix D

Finance Update

Governance & Audit Committee

Date of meeting: 18 April 2024

Lead director/officer: Amy Oliver, Director of Finance

Useful information

- Ward(s) affected: All
- Report author: Kirsty Cowell, Head of Finance
- Author contact details: Kirsty.cowell@leicester.gov.uk
- Report version number: 1

1. Summary

1.1 To present a finance update including implementation of improvements to the statement of accounts process.

1.2 This report highlights the steps for improvements that have been put into place for the 2023/24 statement of accounts.

2. Recommended actions/decision

2.1 The Governance & Audit Committee is recommended to note the report.

3. Background and options with supporting evidence

3.1 A report on the statement of accounts 2022/23 is found elsewhere on your agenda. Included within that report is the report from the external auditors on audit findings and includes a number of recommendations.

4. Detailed report

4.1 The report on the Statement of Accounts 2022/23, elsewhere on the agenda includes the external auditors report on their audit findings. This includes issues identified and areas for improvement. A previous report to the committee in November brought these issues to your attention.

4.2 Issues identified during the audit included:

- Evidence on assumptions relating to valuation of assets
- Issues with capital additions and capital expenditure not adding value
- Issues with depreciation calculations
- Journal authorisation process
- Unit 4 Segregation of duties
- Debtors and receipts in advance, issues with accounting in the wrong year.
- Issue with estimation of Pension fund, due to timing of receiving valuation
- Schools bank balances based on estimates
- Misclassification on notes to the statement of accounts

4.3 The following improvements have been implemented this year:

- Improved guidance on the closedown process and the evidence required
- Training sessions have been held for all of accountancy.
- Training sessions for capital project managers.

Valuations

4.4 Discussions have been held to agree a revised process for capturing the required evidence for audit during the valuation process.

4.5 This process includes revised guidance issued from finance to clarify requirements by the auditors.

4.6 Additional review steps by both the valuations and finance teams have been included in the revised process to help identify issues during the statement of accounts preparation process and prior to submitting the accounts and working papers to the auditors.

Other

4.7 It should be noted that due to the cyber incident we are expecting potential issues as staff access has been impacted to action tasks at the appropriate time. This is especially the case with the valuations team who were working to a tight deadline, following audit queries in relation to 2022/23 statement of accounts. We are monitoring the situation and updating deadlines where possible to enable completion of the statement of accounts by the 31 May requirement.

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

5.1 Financial implications

There are no financial implications arising from this report.

5.2 Legal implications

There are no direct legal implications arising from this report. Kevin Carter, Head of Law, Ext 37 4197

5.3 Equalities implications

There are no direct equalities implications arising from the report. Equalities Officer, Surinder Singh, Ext 37 4148

5.4 Climate Emergency implications

There are no climate emergency implications directly associated directly with this report. Aidan Davis, Sustainability Officer, Ext 37 2284

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

N/A

6. Background information and other papers:

- Finance Update and 2022/23 External Audit Progress report presented to Governance & Audit Committee on 22 November 2023
- Statutory Statement of Accounts & Annual Governance Statement 2022/23 presented to Governance & Audit Committee on 18 April 2024

7. Summary of appendices:

N/A

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

No

9. Is this a "key decision"? If so, why?

No

Appendix E

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted