

Leicester  
City Council

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

**DATE: WEDNESDAY, 30 JULY 2014**

**TIME: 5:30 pm**

**PLACE: THE OAK ROOM, GROUND FLOOR, TOWN HALL, TOWN  
HALL SQUARE, LEICESTER.**

### **Members of the Committee**

Councillor Westley (Chair)

Councillor Dr. Moore (Vice-Chair)

Councillors Alfonso, Dr Chowdhury, Desai, Grant and Naylor

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

for Monitoring Officer

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# Information for members of the public

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- ✓ to ensure that the sound on any device is fully muted;
- ✓ 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 Angie Smith, **Democratic Support on (0116) 454 6354** or email [Angie.Smith@Leicester.gov.uk](mailto:Angie.Smith@Leicester.gov.uk) or call in at City Hall, 115 Charles Street.

For Press Enquiries - please phone the **Communications Unit on 0116 454 4151**

## **PUBLIC SESSION**

### **AGENDA**

**1. APOLOGIES FOR ABSENCE**

**2. DECLARATIONS OF INTEREST**

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

**3. MINUTES OF THE PREVIOUS MEETING**

**Appendix A**

The Minutes of the previous meeting of the Audit and Risk Committee held on 25<sup>th</sup> June 2014 are attached, and Members will be asked to confirm them as a correct record.

**4. EXTERNAL AUDIT PROGRESS REPORT AND TECHNICAL UPDATE**

**Appendix B**

The External Auditor submits a report to the Audit and Risk Committee with an overview of progress in delivering their responsibilities as external auditors. The report also highlights the main technical issues which are currently having an impact in local government.

The Committee is asked to receive the report.

**5. DRAFT STATUTORY STATEMENT OF ACCOUNTS FOR THE FINANCIAL YEAR 2013-14**

**Appendix C**

The Director of Finance presents the Draft Statement of Accounts for the year ended 31<sup>st</sup> March 2014. The Audit and Risk Committee is recommended to note the draft accounts for the year ended 31<sup>st</sup> March 2014 as submitted for audit.

**6. REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT IN 2013-14**

**Appendix D**

The Director of Finance submits a report that presents the findings of the annual review of the effectiveness of the Council's system of internal audit for 2013-14.

The Committee is recommended to accept the findings of the review, and conclude that the Council has an effective system of internal audit upon which it (the Council) can place reliance.

**7. INTERNAL AUDIT - 2ND QUARTER OPERATIONAL PLAN 2014-15** **Appendix E**

The Director of Finance presents to Committee the detailed operational audit plan for the second quarter of the financial year 2014-15.

The Audit and Risk Committee is asked to note the Internal Audit operational plan for the second quarter of 2014-15.

**8. ANNUAL REVIEW OF INTERNAL AUDIT CHARTER** **Appendix F**

The Director of Finance submits a report to seek the Committee's approval of amendments to the Internal Audit Charter

The Committee is recommended to approve the revised Internal Audit Charter and agree that it accurately reflects the terms of reference of the Internal Audit service.

**9. PRIVATE SESSION**

**AGENDA**

**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 report in private on the grounds that it will contain 'exempt' information as defined by the Local Government (Access to Information) Act 1985, as amended, and consequently makes the following resolution:-

“that the press and public be excluded during consideration of the following report in accordance with the provisions of Section 100A(4) of the Local Government Act 1972, as amended, because it involves the likely disclosure of 'exempt' information, as defined in the Paragraph detailed below of Part 1 of Schedule 12A of the Act, and taking all 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 holding that information)

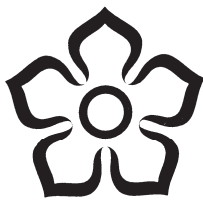
OUTCOMES OF INTERNAL AUDIT WORK IN 2013-14 QUARTER 4  
(JANUARY 2014 – MARCH 2014) Appendix B1

**10. OUTCOMES OF INTERNAL AUDIT WORK IN 2013-14 QUARTER 4 (JANUARY 2014 - MARCH 2014) Appendix B1**

The Director of Finance to present a report.

**11. ANY OTHER URGENT BUSINESS**





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# Appendix A

Minutes of the Meeting of the  
AUDIT AND RISK COMMITTEE

Held: WEDNESDAY, 25 JUNE 2014 at 5.00pm

P R E S E N T:

Councillor Westley – Chair  
Councillor Dr. Moore – Vice-Chair

Councillor Alfonso  
Councillor Desai

Councillor Dr. Chowdhury  
Councillor Naylor

\* \* \* \* \*

**1. APOLOGIES FOR ABSENCE**

Apologies were received from Councillor Grant, Steve Jones, Kamal Adatia

**2. DECLARATIONS OF INTEREST**

There were no declarations of interest made.

The Chair informed the Committee that Tony Edeson, Head of Internal Audit and Risk Management, had won the coveted award of ALARM Risk Manager of the Year at their Learning and Development Forum in Manchester on Monday 23<sup>rd</sup> June 2014. ALARM are the Public Sector Risk Management Association covering all Public Sector bodies. The national event was attended by over 1,000 delegates, and Tony had been shortlisted with 5 other risk managers. The Director of Finance commented that this was well deserved, and this view was echoed by the Committee.

**3. MINUTES OF THE PREVIOUS MEETING**

RESOLVED:

that the minutes of the Audit and Risk Committee meeting held on 15<sup>th</sup> April 2014 be approved as a correct record.

**4. PROCEDURAL GUIDANCE AND RECENT CHANGES IN ARRANGEMENTS FOR CASH HANDLING AT THE COUNCIL**

The Director of Finance submitted a report to the Committee on the current procedure rules on cash handling and security, and the supplementary

guidance issued by Internal Audit, and was presented by the Head of Internal Audit and Risk Management and the Head of Business Service Centre. The Committee was asked to note the report and to make such comments and recommendations as they saw fit to the Director of Finance.

Members were informed that petty cash was used for one-off office items, or expense claims. A usual amount to be kept in an office would be approximately £15, and prevented lots of money being kept in offices, and reduced responsible officer numbers. Members were also told the level of float for each person handling cash depended on the centre, and was based on turnover. All areas that held cash had unannounced spot checks, and centre managers would check the floats each day before opening and at the end of the day. Regular issues could be mapped to whoever was on duty.

The Head of Business Service Centre explained that in an emergency a cash advance could be authorised following finance procedure rules, for example, a social worker could claim a cash advance to take children on a day trip, but would gather receipts to show where money had been spent.

Members said using some current suppliers was expensive due to procurement rules. It was reported that the Council had left ESPO and was no longer one of the seven Member authorities, but could still use ESPO as a supplier.

In response to Members' request, the Director of Finance agreed to create a 'top 20' list of income generators at the Council for information for Members, for example, from parking meters

RESOLVED:

1. that the report be noted.
2. the Committee make any comments or recommendations as they see fit to the Director of Finance.

## **5. POLICY FOR ENGAGEMENT OF EXTERNAL AUDITORS FOR NON-AUDIT WORK**

The Director of Finance submitted a report which sought the Audit and Risk Committee's approval of the 'Policy for Engagement of External Auditors for Non-Audit Work'. The report was presented by the Head of Internal Audit and Risk Management.

Members were reminded the Audit and Risk Committee's Terms of Reference required the policy to be reviewed and approved annually. It was reported there were no changes to the policy from the previous year.

Members were asked to note if the external auditors wanted to do any non-audit work, they had to seek agreement from the Director of Finance that there was no threat to independence.

RESOLVED:

1. that the Audit and Risk Committee approve the policy for the



## **6. RISK MANAGEMENT AND INSURANCE SERVICES UPDATE REPORT**

The Director of Finance submitted a report which provided the Committee with the regular update on the work of the Council's Risk Management and Insurance Services team's activities. The Committee was recommended to receive the report and to note its contents, and make any recommendations or comments as they saw fit to the Executive or the Director of Finance. The reported was presented by the Head of Internal Audit and Risk Management.

It was reported there was nothing specific to bring to the attention of Members of the Committee since the last meeting, but there had been 27 changes by the end of January to registers, which showed risk management was being embedded into the council.

Members were asked to note that since the last report to the Committee, the Council had one case go to Court, and was the first challenge to defend since the Council began handling injury cases in house. The Council was successful and allowed the return of £29,200 to reserves. The Council was also awarded costs just under £6,000.

Members were informed an incident on 30<sup>th</sup> April resulted in the Council suffering a significant loss of all its networked services. A workable system was in place within four hours. Lessons were learned from the incident and procedures had now been changed, and had been good practice before the data centre move over the weekend of 4-6<sup>th</sup> July 2014, and would commence at 4.00pm on Friday 4<sup>th</sup> July. The Director of Finance and the Director of Delivery, Communications and Political Governance would be on call during the period. Members were assured the site had networked cables for data and the site would be secure, the cost of which was incorporated into the accommodation strategy. The Head of Internal Audit and Risk Management was satisfied the planning and preparation for the move was good.

The meeting was informed the Public Sector was being balloted for strike action on 10<sup>th</sup> July 2014. It was reported that the last strike did not cause the council to lose any critical activities.

RESOLVED:

1. that the report be received and its contents noted.
2. the Committee make any comments or recommendations as they see fit either to the Executive or Director of Finance.

## **7. PROPOSED SCHEDULE OF MEETINGS FOR THE FINANCIAL YEAR 2014-15**

The Director of Finance presented to the Committee the schedule of meetings and their agendas for the Financial Year 2014-15 agreed at the meeting of 19<sup>th</sup> March 2014. The Committee was recommended to note the plan and content, and raise any issues or questions with the report author or the Director of

Finance.

The Head of Internal Audit and Risk Management presented the report, and informed Members the Plan may change over the year due to unforeseen circumstances. The Plan included draft training suggestions, and it was noted the membership of the Committee remained the same, so training listed for July 2014 was not required. Members were asked to let the Chair or officers know if they wanted a particular briefing session to be organised.

It was noted a briefing session for Members who were not familiar with financial reporting documentation and accounts would be useful, as would information on training sessions delivered by external organisations, for example, KPMG.

RESOLVED:

1. that the report be received and its contents noted.
2. the Committee raise any issues or questions with the report author or Director of Finance.

## **8. CLOSE OF MEETING**

The meeting closed at 7.09pm.



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# External audit progress report and technical update

Leicester City Council

July 2014

Appendix B

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

- High impact
- Medium impact
- Low impact
- For info

PROGRESS REPORT					
Progress Report					3
KPMG RESOURCES					
KPMG/Shelter report: Fix the housing shortage or see house prices quadruple in 20 years					5
TECHNICAL UPDATE					
Department of Health publishes directions and an explanatory note for the 2014 transfer of funds from the NHS to local authorities	●	8	Value for money data briefing on waste collection	●	13
Housing Revenue Account Borrowing Programme	●	9	Financial ratios tool	●	13
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2014/15 work programme and scales of fees for the National Fraud Initiative	●	10	Local government funding: Assurance to Parliament (NAO report)	●	14
NFI – June 2014 National Report Published	●	10	Maintaining strategic infrastructure: roads (NAO report)	●	14
Audit Commission 14/15 Scale Fees confirmed	●	11	Tenfold difference in outsource spending revealed (Local Government Chronicle article)	●	15
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# Progress report

This document provides the audit committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report

Area of responsibility	Commentary
<p><b>Financial statements</b></p>	<p>The planning process for the 2013/14 audit is complete and we presented our detailed Audit Plan to the March meeting of this Committee. The Committee should note the risks identified in the Plan and the work we intend to undertake to address these risks.</p> <p><b>Since the March 2014 Audit Committee meeting we have:</b></p> <ul style="list-style-type: none"> <li>▪ undertaken our interim audit in advance of the final accounts audit. As part of this work we:           <ul style="list-style-type: none"> <li>▪ assess the effectiveness of your financial controls and undertake ‘walk-throughs’ of the key financial controls and perform sample testing;</li> <li>▪ review and consider internal audit work completed to date; and</li> <li>▪ review the appropriateness of your arrangements for the prevention and detection of fraud and corruption in accordance with ISA240 (the responsibility to consider fraud), including discussing this with the Local Counter Fraud Specialist and internal audit.</li> </ul> </li> </ul> <p>We have substantially completed our work in these areas.</p> <ul style="list-style-type: none"> <li>▪ the key areas to bring to the Committee’s attention are:           <ul style="list-style-type: none"> <li>During the year there has been no formal evidence of review of the monthly bank reconciliation. This is a key control to help ensure the accuracy and completeness of the Council’s accounting records.</li> <li>The Principal Accountant does review these reconciliations, but informally. The lack of audit evidence is because the bank reconciliation is prepared in real time and evidence needs to be retained at the moment of preparation - in some cases it is not.</li> <li>We raised this issue with officers in March, as soon as we became aware. For the March 2014 year end bank reconciliation, and for all subsequent bank reconciliations, the Principal Accountant will evidence his review and ensure that all documentation to support the reconciliation is retained.</li> </ul> </li> </ul> <p>We plan to commence our audit of the accounts on 11 August 2014. We plan to issue our ISA 260 report ahead of the Audit Committee on 29 September 2014, and our opinion by the deadline of 30 September 2014.</p> <p>There are no matters that we need to bring to the attention of members at this time.</p>

## External audit progress report – July 2014

This document provides the audit committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report

Area of responsibility	Commentary
Value for Money	<p>We have completed our initial risk assessment and have not identified any risks to our VFM conclusion at this stage. We will update our assessment at year end.</p> <p>We will conclude on the results of the VFM audit through our ISA 260 Report.</p>
Certification of claims and returns	<p>We have started testing of the housing subsidy return for 2013/14. We have selected samples for your staff to complete testing of individual cases; we are reviewing cases to identify if any further testing is required.</p> <p>There are no matters that we wish to bring to members' attention at this stage. The deadline for reporting to DWP is 30 November.</p>



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# KPMG resources



Area	Comments
<p><b>KPMG/Shelter report: Fix the housing shortage or see house prices quadruple in 20 years</b></p>	<p>Without a radical programme of house building average house prices in England could double in just ten years to £446,000, according to new research. In twenty years they could quadruple, with the average house price estimated to rise to over £900,000 by 2034 if current trends continue.</p> <p>The research from KPMG and Shelter also reveals that, more than half of all 20-34 year olds could be living with their parents by 2040, as soaring housing costs caused by the shortage of affordable homes leave more and more people priced out of a home of their own.</p> <p>The warning comes as KPMG and Shelter launch a landmark new report, outlining how the 2015 government can turn the tide on the nation's housing shortage within a single parliament.</p> <p>With recent government figures showing that homeownership in England has been falling for over a decade, the consequences of our housing shortage are already being felt.</p> <p>The report sets out a blueprint for the essential reforms that will increase the supply of affordable homes and stabilise England's rollercoaster housing market.</p> <p>It calls on politicians to commit to an integrated range of key measures, including:</p> <ul style="list-style-type: none"> <li>■ Giving planning authorities the power to create 'New Homes Zones' that would drive forward the development of new homes. Combined with infrastructure, this would be led by local authorities, the private sector and local communities, and self-financed by sharing in the rising value of the land.</li> <li>■ Unlocking stalled sites to speed up development and stop land being left dormant, by charging council tax on the homes that should have been built after a reasonable period for construction has passed.</li> <li>■ Introducing a new National Housing Investment Bank to provide low cost, long term loans for housing providers, as part of a programme of innovative ways to finance affordable house building.</li> <li>■ Helping small builders to get back into the house building market by using government guarantees to improve access to finance.</li> <li>■ Fully integrating new homes with local infrastructure and putting housing at the very centre of City Deals, to make sure towns and cities have the power to build the homes their communities need.</li> </ul> <p>To read the report, visit <a href="https://portal.ema.kworld.kpmg.com/uk/Documents/NewsroomDocs/2014/KPMG%20Shelter%20report%20FINAL.pdf">https://portal.ema.kworld.kpmg.com/uk/Documents/NewsroomDocs/2014/KPMG%20Shelter%20report%20FINAL.pdf</a>.</p> <p>For more information, please contact a member of the audit team.</p>



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# Technical update

Area	Level of Impact	Comments	KPMG perspective
<p><b>Department of Health publishes directions and an explanatory note for the 2014 transfer of funds from the NHS to local authorities</b></p>	<p>● <b>High</b></p>	<p>On 4 April, the Department of Health (DH) issued the National Health Service Commissioning Board (Payments to Local Authorities) Directions 2014. The 2014 directions, which apply in respect of NHS England's (NHSE's) payment of £1.1 billion to local authorities in respect of their social care functions for the financial year 2014/15, came into force on 1 April.</p> <p>Each local authority and NHS England should enter into an agreement in relation to the payments to be made and the conditions that apply. The 2014 Directions, and the updated National Health Service (Conditions relating to Payments by NHS Bodies to Local Authorities) Directions 2013, impose certain conditions that must be met in relation to each payment. These include conditions that:</p> <ul style="list-style-type: none"> <li>■ the funding must be used to support adult social care services which also have a health benefit;</li> <li>■ the local authority and its local clinical commissioning groups (CCGs) agree how the funding is best used within social care and the outcomes that are expected from the investment;</li> <li>■ local authorities and CCGs have regard to the Joint Strategic Needs Assessment for their local population and existing commissioning plans for both health and social care in deciding how the funding is to be used; and</li> <li>■ local authorities must be able to demonstrate how the funding transfer will improve social care services and outcomes for their users.</li> </ul> <p>NHSE must not place any other conditions on the funding transfers without the written agreement of the DH and must ensure that it has access to timely information on how the funding is being used locally.</p>	<p><i>The committee may wish to seek assurances that the Authority has complied with the DH Directions</i></p>

Area	Level of Impact	Comments	KPMG perspective
<b>Housing Revenue Account Borrowing Programme</b>	<p style="text-align: center;"><span style="color: red;">●</span> <b>High</b></p>	<p>On 7 April the government launched the Housing Revenue Account Borrowing Programme which makes £300 million of borrowing available to provide 10,000 new affordable homes in 2015/16 and 2016/17. This funding will form part of the Local Growth Fund, available to local authorities who have a proposal agreed by their Local Enterprise Partnership.</p> <p>The government also published a revised set of General Consents under Section 25 of the Local Government Act 1988 which allows councils to dispose of vacant housing land to private registered providers and non-registered providers at less than market value.</p> <p>For more information visit <a href="https://www.gov.uk/government/news/extra-borrowing-powers-for-councils-to-build-10000-affordable-homes">https://www.gov.uk/government/news/extra-borrowing-powers-for-councils-to-build-10000-affordable-homes</a></p> <p>&amp;</p> <p><a href="https://www.gov.uk/government/publications/general-consents-for-privately-let-housing">https://www.gov.uk/government/publications/general-consents-for-privately-let-housing</a></p>	<p><i>The committee may wish to seek further information as to how this affects the Authority</i></p>
<b>Audit Commission calls for improved quality and accuracy in grant and subsidy claims and returns</b>	<p style="text-align: center;"><span style="color: orange;">●</span> <b>Medium</b></p>	<p>78 per cent of councils' claims to the grant-paying body for housing benefit subsidies for 2012/13 were challenged by the Audit Commission's appointed auditors. Auditors issued a qualification letter in 35 per cent (360) of the 1,023 claims and returns made by councils for 2012/13 in respect of seven schemes for grants or subsidies. 255 of the 360 (71 per cent) qualifications related to claims for housing and council tax benefit subsidy. In total, these seven schemes transfer £50.5 billion of public money from central to local government.</p> <p>The full findings in <i>Local Government Claims and Returns: Auditor's Certification Work for 2012/13</i>, also provide an overview of how local authority handling of claims and subsidies has changed since the Commission first produced a national report for the 2008/09 financial year. For example, between 2009 and 2013, auditors made amendments to about one quarter of teachers' pensions returns. 55 teachers' pensions returns (36 per cent) for 2012/13 were qualified, double that for 2011/12.</p> <p>To view the full report, visit <a href="http://www.audit-commission.gov.uk/audit-regime/certifying-claims-and-returns/">http://www.audit-commission.gov.uk/audit-regime/certifying-claims-and-returns/</a></p>	<p><i>We will report the findings of our 2013/14 certification work in February 2015</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p><b>2014/15 work programme and scales of fees for the National Fraud Initiative</b></p>	<p style="text-align: center;">● Low</p>	<p>On Monday 30 June 2014 the Audit Commission published the final 2014/15 work programme and scale of fees for National Fraud Initiative (NFI).</p> <p>The Commission has considered the small number of consultation responses received. Respondents generally supported the Commission’s decision to recognise the financial pressures that public bodies are facing in the current economic climate by keeping the scale of fees the same as for NFI 2012/13. They also raised some specific points, on which the Commission will respond directly to the organisations concerned. A summary of the consultation responses can be viewed at <a href="http://www.audit-commission.gov.uk/wp-content/uploads/2014/06/NFI-2014-15-Work-programme-and-scale-of-fees-Consultation-Feedback.pdf">http://www.audit-commission.gov.uk/wp-content/uploads/2014/06/NFI-2014-15-Work-programme-and-scale-of-fees-Consultation-Feedback.pdf</a>.</p> <p>The final work programme and scale of fees documents for the NFI 2014/15 exercise are available on the Commission’s website <a href="http://www.audit-commission.gov.uk/national-fraud-initiative/public-sector/fees/">http://www.audit-commission.gov.uk/national-fraud-initiative/public-sector/fees/</a>.</p> <p><b>Data request</b></p> <p>The NFI Team sent the formal NFI 2014/15 data request to all mandatory participant directors of finance on Monday 30 June. Directors of finance of existing voluntary participants also received an invitation to participate. The emails included links to the NFI online instructions which give details of NFI data requirements and also announce the launch of our 2014/15 web application.</p> <p>Participants are required to submit the required data sets, through the secure NFI web application, on Monday 6 October 2014. The Commission expect to release the data matches on Thursday 29 January 2015.</p>	<p><i>The committee may wish to consider whether the Authority has responded to the data request.</i></p>
<p><b>NFI – June 2014 National Report Published</b></p>	<p style="text-align: center;">● For information</p>	<p>On Thursday 12 June 2014 the Audit Commission published its report on the NFI, the Commission’s data matching exercise to help prevent and detect fraud. Since the last report in May 2012 the NFI has identified £203 million of fraud, overpayment and error in England. A further £26 million was identified by the NFI in Scotland, Wales and Northern Ireland bringing total outcomes since the last report to £229 million.</p> <p>Since its launch in 1996, the NFI has enabled the public and private sector participants across the UK to detect fraud, overpayment and error totalling £1.17 billion.</p> <p>To read the report, visit <a href="http://www.audit-commission.gov.uk/2014/06/the-national-fraud-initiative-finds-229-million-of-fraud-overpayment-and-error/">http://www.audit-commission.gov.uk/2014/06/the-national-fraud-initiative-finds-229-million-of-fraud-overpayment-and-error/</a></p>	

Area	Level of Impact	Comments
<b>Audit Commission 14/15 Scale Fees confirmed</b>	<p style="text-align: center;">● For information</p>	<p>The 2014/15 work programme and scales of fees are now available, alongside the lists of fees for individual bodies. A summary of the responses to the Audit Commission consultation on the work programme and fees is also available.</p> <p>For more information visit <a href="http://www.audit-commission.gov.uk/audit-regime/1415WPSF">http://www.audit-commission.gov.uk/audit-regime/1415WPSF</a></p>
<b>Update to VFM profiles</b>	<p style="text-align: center;">● For information</p>	<p>The VFM profiles tool is updated regularly. The latest update, due on Friday 11 July 2014, includes a redesigned children and young people section based on the latest section 251 outturn data for 2012/13. This data includes the time series back to 2009/10 wherever possible, and the change brings the children and young people's section in line with the rest of the profiles where outturn data is used. The VFM profiles previously used section 251 planned budget data.</p> <p>This section is now organised into the follow areas of expenditure:</p> <ul style="list-style-type: none"> <li>■ LA education services</li> <li>■ Schools and services</li> <li>■ Sure start &amp; early years</li> <li>■ Looked after children</li> <li>■ Safeguarding</li> <li>■ Youth justice</li> <li>■ Young people</li> <li>■ Other children &amp; family services</li> <li>■ Asylum seekers</li> </ul> <p>Each section contains financial indicators from the section 251 outturn data collection and relevant performance or contextual indicators.</p>

Area	Level of Impact	Comments
<p>Update to VFM profiles (cont.)</p>	<p>● For information</p>	<p>On 5 June, the Audit Commission published the latest in its series of VFM briefings, <i>Managing council property assets: Using data from the VFM Profiles</i></p> <p>The briefing draws on Capital Outturn Return (COR) data in the Profiles to show trends since 2004/05 in: the net book value (NBV) of the operational and investment estates; levels of capital investment; and sources of finance for capital investment. It deals with how to release more value from the estate overall, and in particular, it addresses the need for councils to consider how they can best use or dispose of surplus assets, which had a NBV of £2.5 billion in 2012/13.</p> <p>As part of this update the following updated data has been added to the Profiles:</p> <ul style="list-style-type: none"> <li>■ Sustainable economy section, planning – processing of planning applications – quarter 3 2012/13.</li> <li>■ Financial resilience, revenue collection services – CIPFA Revenue Collection Statistics – for 2012/13.</li> <li>■ Environmental services – ENV18 – Local authority collected waste: annual results tables, final annual results for local authority collected waste and management figures for England. The Department for Environment, Food and Rural Affairs revised this data in May 2014. The data in the VFM profiles has been updated to reflect these changes; our analysis of the changes were minimal and only affected one council, Warrington Borough Council, for the total local authority collected waste and household – waste not sent for recycling.</li> <li>■ Benefits caseload – the latest available monthly data has been added, bringing the latest data to February 2014.</li> </ul> <p>For further information visit: <a href="http://www.audit-commission.gov.uk/2014/06/can-local-governments-2-5-billion-surplus-assets-be-put-to-better-use/">http://www.audit-commission.gov.uk/2014/06/can-local-governments-2-5-billion-surplus-assets-be-put-to-better-use/</a></p>

Area	Level of Impact	Comments
<p><b>Value for money data briefing on waste collection</b></p>	<p>● <b>For information</b></p>	<p>The Audit Commission has published Local authority waste management, the latest in a series of value for money (VFM) data briefings analysing data in the VFM profiles tool. The briefing examines spending and performance on household waste management.</p> <p>In 2012/13 the average spending on household waste management varied between local authorities with similar responsibilities. For example most authorities that both collect and dispose of waste (58 per cent) spent between £125 and £175 per household in 2012/13 but thirteen per cent spent more than £200 per household.</p> <p>In 2012/13, the amount of waste recycled varied from 12 per cent up to 67 per cent, with 40 authorities recycling less than 30 per cent of their household waste. And while landfill has reduced everywhere some regions are still more reliant than others.</p> <p>The variation in performance and spending suggests there may be opportunities to reduce expenditure. If councils were able to reduce their spending to the average for their authority type and waste responsibilities potentially up to £464 million could be saved overall. Any savings could be used to support more sustainable forms of waste management or be reinvested in other services.</p> <p>Previous briefings on councils' expenditure on benefits administration, council tax collection, social care for older people, income from charging and business rates are also available on the Commission's website.</p> <p>For more information visit <a href="http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/">http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/</a></p>
<p><b>Financial ratios tool</b></p>	<p>● <b>For information</b></p>	<p>On 4 April, the Audit Commission published its updated financial ratios analysis tool.</p> <p>The ratios tool has been updated to include:</p> <ul style="list-style-type: none"> <li>■ data for the 2012/13 financial year; and</li> <li>■ the restatement of the 2011/12 data where relevant.</li> </ul> <p>The ratio tool continues to include data from 2007/08 for district, unitary and county councils, data from 2008/09 for Greater London Authority bodies and data from 2009/10 for standalone fire authorities.</p> <p>Information is included for police and crime commissioners for 2011/12 and 2012/13 reflecting the data available for these new bodies.</p>



Area	Level of Impact	Comments
<b>The NAO's role in local audit</b>	<p style="text-align: center;">●</p> <p style="text-align: center;"><b>For information</b></p>	<p>The National Audit Office (NAO) is taking on new responsibilities in the new framework for the audit of local bodies. The NAO has produced a leaflet which provides information on its new role, examples of its recent value for money work focused on local services, and contact details for you to provide views and suggestions or to ask questions about its work.</p> <p>For more information, visit <a href="http://www.nao.org.uk/report/the-naos-role-in-local-audit/">http://www.nao.org.uk/report/the-naos-role-in-local-audit/</a></p>
<b>Local government funding: Assurance to Parliament (NAO report)</b>	<p style="text-align: center;">●</p> <p style="text-align: center;"><b>For information</b></p>	<p>A recent NAO report examines how the Department for Communities and Local Government (DCLG) has implemented and oversees the assurance framework that enables departments to assure Parliament on funding for local authorities following the changes in the 2010 Spending Review to give local authorities more control over their funding. The report finds that under current arrangements DCLG's monitoring information gives limited insight into whether value for money is being achieved in practice. It also suggests that departments should assess whether continuing to fund local authorities through unringfenced targeted grants is appropriate in the context of a locally-defined approach to achieving value for money.</p> <p>To view the report, visit <a href="http://www.nao.org.uk/report/local-government-funding-assurance-to-parliament/">http://www.nao.org.uk/report/local-government-funding-assurance-to-parliament/</a></p>
<b>Maintaining strategic infrastructure: roads (NAO report)</b>	<p style="text-align: center;">●</p> <p style="text-align: center;"><b>For information</b></p>	<p>The NAO has published a report on Maintaining strategic infrastructure: roads. This report highlights how the lack of predictability of funding for highways authorities has practical implications for the roads network and may lead to increased costs in the long term.</p> <p>Although the report focuses primarily on central government responsibilities it may be of interest to you for your highways management responsibilities.</p> <p>To read the report, visit <a href="http://www.nao.org.uk/report/maintaining-strategic-infrastructure-roads/">http://www.nao.org.uk/report/maintaining-strategic-infrastructure-roads/</a></p>

Area	Level of Impact	Comments
<p><b>Tenfold difference in outsource spending revealed (Local Government Chronicle article)</b></p>	<p>● <b>For information</b></p>	<p>“Exclusive analysis has revealed a tenfold difference in the amount councils spend per head of population on outsourced services.</p> <p>Figures from a database of councils’ published receipts for 2012-13 show a huge gulf in the amount spent by top-tier councils with organisations in the private, public and voluntary sectors.</p> <p>Wigan MBC spent just £116 with outside providers per head of population, compared with over £1,000 at several London boroughs and £1,450 at Southend BC.</p> <p>The data, compiled by research firm Porge and analysed by Local Government Chronicle, presents for the first time a broad picture of the total trade top-tier councils carried out with other organisations, based on all published receipts for expenditure over £500.</p> <p>It shows councils spent £30.5bn with outside providers in 2012-13.</p> <p>Alongside classic outsourcing expenditure, such as waste contracts, this includes capital schemes such as housebuilding and payments to financial institutions.”</p> <p>To view the full article, visit <a href="http://www.lgcplus.com/5071076.article">http://www.lgcplus.com/5071076.article</a></p>
<p><b>Rural Services Delivery funding announcement</b></p>	<p>● <b>For information</b></p>	<p>The Department for Communities and Local Government (DCLG) has confirmed that a settlement of £11.5 million will be made available to rural local authorities in 2014/15 to support them in transforming services and promoting efficiencies. This funding comprises £9.5 million of Rural Delivery Services funding, and £2 million additional funding targeted at the most rural councils.</p> <p>For more information, visit <a href="https://www.gov.uk/government/publications/rural-grant-allocations-for-2014-to-2015">https://www.gov.uk/government/publications/rural-grant-allocations-for-2014-to-2015</a></p>



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# Appendix

## Appendix 1 – 2013/14 Audit deliverables

Deliverable	Purpose	Timing	Status
<b>Planning</b>			
Fee letter	Communicate indicative fee for the audit year	April 2013	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	February 2014	Complete
<b>Substantive procedures</b>			
Report to those charged with governance (ISA+260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2014	In progress
<b>Completion</b>			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2014	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	October 2014	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2014	TBC
<b>Certification of claims and returns</b>			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	February 2015	TBC

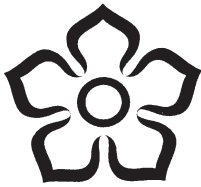


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Leicester  
City Council

# Appendix C

**WARDS AFFECTED:  
ALL WARDS (CORPORATE ISSUE)**

**AUDIT & RISK COMMITTEE**

**18<sup>th</sup> July 2014**

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## **STATUTORY STATEMENT OF ACCOUNTS 2013/14**

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### **REPORT OF THE DIRECTOR OF FINANCE**

#### **1. INTRODUCTION**

- 1.1 The Accounts and Audit (England) Regulations 2011 require that the Council prepare its draft Statement of Accounts by the 30<sup>th</sup> June following the end of the financial year, and that these are certified by the s151 officer (Director of Finance).
- 1.2 The committee will be invited to approve the issue of the audited final Statement of Accounts for the 2013/14 year on or before the 29<sup>th</sup> September 2014. Meanwhile, the unaudited accounts are attached to this report and are being brought to the Committee for information.

#### **2. RECOMMENDATIONS**

- 2.1 The Audit & Risk Committee is recommended to note the draft accounts for the year ended 31<sup>st</sup> March 2014 as submitted for audit.

#### **3. SUMMARY**

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

3.2 There have been no substantial changes in the accounting standards or the Council's accounting policies during the 2013/14 financial year, although it should be noted there were some changes to the requirements for accounting for defined benefit pension schemes which required restating some comparative 2012/13 figures.

3.3 The core financial statements are:

- Movement in reserves statement

This shows the movement in the year on the different reserves held by the authority. This statement distinguishes between "usable reserves" which can be used to fund expenditure or reduce local taxation and "unusable reserves" which are effectively accounting entries and not actual cash.

- Comprehensive income and expenditure statement

This shows the Council's actual performance for the year in accordance with the Code of Practice. This means that the accounts are prepared on a different basis than that used to set the Council's budget and raise Council Tax. There are a number of statutory adjustments that are made to the surplus or deficit shown on this statement to arrive at the balance on the General Fund. The level of uncommitted general balances at 31<sup>st</sup> March 2014 was £24.6m, as set out in the 2013/14 revenue outturn report.

- Balance sheet

The Balance Sheet shows the net worth of the Council in terms of its assets and liabilities. It shows the net value of the organisation including the balances and reserves, its long term indebtedness, together with fixed and net current assets employed in its operations. The 2013/14 Balance Sheet shows the Council has net assets of £1.2bn

- Cash flow statement

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

3.4 The accounts have now been formally submitted for audit to KPMG LLP, our appointed external auditors. The results of the audit and the statements, amended in agreement with our auditors if necessary, will be brought back to the Committee for approval on or before 29<sup>th</sup> September 2014. At this meeting the Committee will be able to consider the findings of the audit and the management responses to those findings.



**4. FINANCIAL IMPLICATIONS**

4.1 The report is exclusively concerned with financial issues.

**5. LEGAL IMPLICATIONS**

5.1 The timetable and the arrangements for the reporting of the Council's statement of accounts are governed by statute. These statutory requirements have been complied with.

**6. OTHER IMPLICATIONS**

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

**7. BACKGROUND PAPERS**

Draft revenue and capital outturn reports.  
Closure of Accounts working papers – held in the Accountancy Section

**8. CONSULTATIONS**

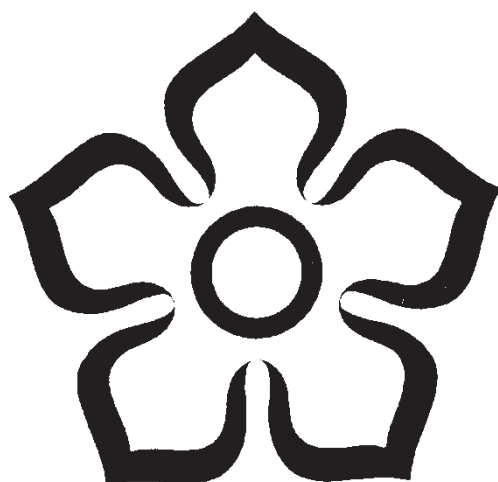
All departments are consulted during the Authority's close down period.

**9. AUTHOR**

Simon Walton  
Senior Accountant  
37 4053

**Alison Greenhill**  
**Director of Finance**





**Leicester**  
City Council

# **Unaudited Statement of Accounts**

**Year ended 31<sup>st</sup> March 2014**



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## FOREWORD

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### 1. Introduction

The statement of accounts presents the City Council's financial performance for the year 2013/14. The accounts have been prepared on a going concern basis, and in compliance with the Code of Practice on Local Authority Accounting in the UK published by the Chartered Institute of Public Finance and Accountancy.

### 2. Core Statements

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

The **Movement in Reserves Statement** shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance (for council tax-setting purposes) and the Housing Revenue Account (for rent-setting purposes). The net increase/decrease before transfers to earmarked reserves shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

The **Comprehensive Income and Expenditure Account** shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the financial period under the relevant accounting standards. This account shows a deficit in 2013/14 of £12.6m. This includes various transactions which illustrate aspects of the Council's financial position but do not impact on the 'bottom line' amounts chargeable to taxpayers – such items include gains/losses on the revaluation or disposal of assets (including losses on assets transferred to academy schools for nil consideration), and changes to actuarial estimates of the authority's pension liabilities (see section 6 below).

The Council is required by law to set its budget and raise council tax on a different accounting basis from that used in the Comprehensive Income & Expenditure Statement. There are a number of statutory adjustments made in order to determine the movement on the General Fund balance, which is a key figure for Council Tax purposes. These are made in the Movement on Reserves Statement described above. Following these adjustments the final movement on the Council's General Fund balance is a small increase of £1.78m.

The **Balance Sheet** shows the Council's assets and liabilities. The top half of the Balance Sheet shows the Council's total net assets.

Assets include property, plant & equipment, intangible assets, amounts owed to the Council and the Council's cash and financial investments. Liabilities include amounts owed by the Council (including conditional funding received), provisions made in respect of future events (see Note 22), the Council's borrowing and the deficit on the Council's pension fund (see section 6 below).

The bottom half of the Balance Sheet shows how the Council's net assets are financed by reserves, which are divided into usable and unusable reserves. Usable reserves include the General Fund, Earmarked Reserves and Usable Capital Receipts. More information on usable reserves is contained in section 5 below.

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.

### **3. Supplementary statements**

The **Housing Revenue Account (HRA)** is a statutory ring-fenced account relating to the provision of rented social housing. The HRA Income and Expenditure account shows a surplus of £19.6m. However after adjustments to reflect statutory requirements, the account generated a year-end surplus of £6.7m.

The **Collection Fund** records all income and expenditure in relation to council tax and non-domestic (business) rates. This account shows an overall year-end deficit of £0.4m.

Up to 2011/12, the Council prepared group accounts consolidating bodies which were associates or subsidiaries of the Council. From 2012/13, the Council assessed these relationships and judged that the preparation of group accounts did not provide any material benefit to users of the accounts in terms of their understanding of the Council's financial position. This remains the Council's judgement for 2013/14. Information on the relevant bodies can still be found in Note 39 to the accounts.



#### **4. Summary of the year**

Local government is in the midst of the most substantial funding cuts ever experienced, as a result of the UK Government's programme to reduce the national spending deficit.

In addition to the cuts, major changes were made to the system of local government finance in 2013/14. These included:-

- (a) the previous system of formula grant, under which the Council received £177m in 2012/13, was abolished;
- (b) in its place, the Council is able to retain 49% of its business rates, and receives from the Government a "Business Rates Top-up Grant" and Revenue Support Grant;
- (c) a number of specific grants ceased, and the money was instead distributed as part of the new mainstream funding system described at (b) above;
- (d) the system of council tax benefit was replaced by a new (less generous) system of council tax reductions for people on low income. Government funding for the new scheme is now cash limited, and is also part of the mainstream funding system.

The changes to the system make it difficult to compare the funding available to the Council for different periods. However, it is estimated that Government funding has fallen by some £50m per annum between 2010/11 and 2013/14.

In its budget strategy for 2013/14, the Council made plans to reduce annual expenditure by £11m over 2 years; this came on top of the 2012/13 plans to reduce annual expenditure by £38m over 3 years.

It is therefore pleasing that, given this very difficult context, the Council spent within budget in 2013/14.

2013/14 also saw local government assume responsibility for public health; with staff, services and funding transferred from the National Health Service. The intention behind this move was to maximise the capacity of the public sector to achieve improvement in public health through co-ordination of all relevant services. The Council received a grant of £20m for these services in 2013/14.

Capital spending of £161m was incurred in 2013/14, a significant increase on the previous year's spending of £76m. This increase is largely due to the £77m spent on the Council's "Building Schools for the Future" (BSF) programme to modernise secondary schools. Contracts have now been signed to re-build or refurbish all schools in the programme, and building work is expected to be complete by spring

2015. In addition, new schools at Crown Hills and City of Leicester were built under Private Finance Initiative schemes, and completed buildings were handed over on 28th October 2013. Significant capital schemes also commenced as part of the City Mayor's Economic Action Plan, including a new food workspace, a new city square and gardens (Jubilee Square and Cathedral Gardens), street works and re-development of the City's indoor market. These schemes will complete in 2014/15.

Credit conditions improved in 2013/14, but there remained significant risks in the financial markets and a cautious approach to investment continued to be taken. The Council had investments totalling £123.9m at the end of the year, and only lent money to strong UK banks, other local authorities and the Government's Debt Management Office.

No new borrowing took place during 2013/14.

## **5. Reserves**

The Council's uncommitted reserves stood at £24.9m on 31<sup>st</sup> March 2014, which is a significant increase on the £14m held at the end of 2012/13. This is the consequence of a deliberate strategy to increase reserves in 2013/14 and 2014/15, to help manage the impact of future Government funding cuts. Reserve balances built up will be drawn down to mitigate the impact of cuts in later years. This "Managed Reserves Strategy" was complemented by a "Spending Review Programme", under which 18 areas of service are the subject of detailed analysis. The aim of the Spending Review Programme is to make budget reductions over a sensible timeframe (avoiding the need to make urgent cuts to balance the budget).

The Council holds "earmarked" reserves for specific purposes. These include reserves ringfenced by law, such as schools balances (£21m) which can only be spent by individual schools; and funds committed for future purposes, such as monies required for Building Schools for the Future (£24m). Other funds include monies received from the NHS for joint projects, and money to pay for capital works. Earmarked reserves stand at £152m. It is expected that earmarked reserves will reduce from 2014/15 as the Building Schools for the Future programme is completed.

## **6. Pensions**

The Council is a member of the Leicestershire local authority pension scheme, a defined benefit scheme managed by Leicestershire County Council. In common with most such schemes, the Council's pension fund shows a significant deficit (£597m). This represents the difference between expected investment returns and the cost of providing benefits to scheme members which have been earned to

date. The size of the deficit has increased, principally due to the impact of changes in assumptions around future liabilities being greater than the impact of returns on investment. The deficit has no immediate impact on the revenue budget, but will be a factor in calculating employers' contributions from 2014/15. Local government pension schemes are changing in 2014/15 and future pension entitlement will be calculated on a career average rather than a final salary basis. Full accounts of the Leicestershire scheme can be found at <http://www.leics.gov.uk/pensions.htm>

Technical changes to the accounting for pensions under the IAS19 standard have come into force this year, requiring the Council to restate the 2012/13 comparative figures on the same basis. This restatement has no impact on the overall Balance Sheet or General Fund position.

## **7. Future issues**

2014/15 and later years will see the continuation of substantial Government grant cuts. Following the introduction of the Business Rates Retention Scheme, all cuts made to mainstream funding are now given effect by reducing Revenue Support Grant. Grant figures have been announced as far ahead as 2015/16, and Revenue Support Grant will fall from £133m in 2013/14 to £77m in 2015/16.

The system of local government funding has, with the introduction of business rates retention, seen a significant shift away from needs based funding. This shift did not take place in 2013/14 (funding was still based on an assessment of need), but from 2014/15 each authority's Revenue Support Grant will be cut proportionally in order to meet predetermined national funding allocations. Such proportional cuts mean that the budgets of authorities serving the least affluent areas of the country will be disproportionately affected.

The Government's fiscal strategy would see reductions in public spending until at least 2018/19, but the impact of these further reductions on local government is not yet known.

The Council is unlikely to need to borrow money in the medium term, and will actively seek opportunities to use investment balances to reduce holdings of debt.

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

The Code of Practice on Local Authority Accounting is published annually by CIPFA and sets out the proper accounting practice required for the Statement of Accounts. There have been no significant changes to accounting policies during 2013/14.



## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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### **The Council's Responsibilities**

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Director of Finance.
- Manage its affairs so as to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

**To be signed by the Chair of the Audit & Risk Committee meeting approving the final audited accounts in September 2014**

### **The Chief Finance Officer's Responsibilities**

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

In preparing this Statement of Accounts, the Chief Finance Officer has:

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

The Director of Finance has also:

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

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



**A Greenhill CPFA  
Director of Finance**

**30<sup>th</sup> June 2014**

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

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## MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council tax setting and dwellings rent setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

A detailed breakdown of movements is provided in Note 7 and Note 8 of the Explanatory Notes to the Core Financial Statements. Movements in Unusable Reserves are detailed in Note 24.

	General Fund Balance	Ear-marked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31st March 2013 brought forward</b>	(24,163)	(154,261)	(7,744)	(1,200)	(20,119)	-	(207,487)	(985,613)	(1,193,100)
<b>Movement in reserves during 2013/14</b> (Surplus) or deficit on provision of services	(62,125)	-	(19,616)	-	-	-	(81,741)	-	(81,741)
Other Comprehensive Expenditure and Income							-	94,344	<b>94,344</b>
<b>Total Comprehensive Expenditure and Income</b>	<b>(62,125)</b>	<b>-</b>	<b>(19,616)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(81,741)</b>	<b>94,344</b>	<b>12,603</b>
Adjustments between accounting basis & Funding basis under regulation	56,567	-	12,891	-	(8,927)	(57,538)	<b>2,993</b>	(2,993)	-
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>	<b>(5,558)</b>	<b>-</b>	<b>(6,725)</b>	<b>-</b>	<b>(8,927)</b>	<b>(57,538)</b>	<b>(78,748)</b>	<b>91,351</b>	<b>12,603</b>
Transfers to/(from) Earmarked Reserves	3,781	1,767	-	-	-	-	<b>5,548</b>	(5,548)	-
<b>(Increase)/Decrease in year</b>	<b>(1,777)</b>	<b>1,767</b>	<b>(6,725)</b>	<b>-</b>	<b>(8,927)</b>	<b>(57,538)</b>	<b>(73,200)</b>	<b>85,803</b>	<b>12,603</b>
<b>Balance at 31st March 2014 carried forward</b>	<b>(25,940)</b>	<b>(152,494)</b>	<b>(14,469)</b>	<b>(1,200)</b>	<b>(29,046)</b>	<b>(57,538)</b>	<b>(280,687)</b>	<b>(899,810)</b>	<b>(1,180,497)</b>

Restated 2012/13	General Fund Balance	Ear-marked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31st March 2012 brought forward</b>	<b>(23,551)</b>	<b>(131,443)</b>	<b>(4,580)</b>	<b>(1,201)</b>	<b>(3,519)</b>	<b>(164,294)</b>	<b>(1,086,582)</b>	<b>(1,250,876)</b>
<b>Movement in reserves during 2012/13</b> (Surplus) or deficit on provision of services	9,607	-	(1,401)	-	-	<b>8,206</b>	386	<b>8,592</b>
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	49,184	<b>49,184</b>
<b>Total Comprehensive Expenditure and Income</b>	<b>9,607</b>	-	<b>(1,401)</b>	-	-	<b>8,206</b>	<b>49,570</b>	<b>57,776</b>
Adjustments between accounting basis & Funding basis under regulation	(39,851)	-	(1,763)	1	(16,600)	<b>(58,213)</b>	58,213	-
<b>Net (Increase)/ Decrease before Transfers to Earmarked Reserves</b>	<b>(30,244)</b>	-	<b>(3,164)</b>	<b>1</b>	<b>(16,600)</b>	<b>(50,007)</b>	<b>107,783</b>	<b>57,776</b>
Transfers to/(from) Earmarked Reserves	29,632	(22,818)	-	-	-	<b>6,814</b>	(6,814)	-
<b>(Increase)/Decrease in year</b>	<b>(612)</b>	<b>(22,818)</b>	<b>(3,164)</b>	<b>1</b>	<b>(16,600)</b>	<b>(43,193)</b>	<b>100,969</b>	<b>57,776</b>
<b>Balance at 31st March 2013 carried forward</b>	<b>(24,163)</b>	<b>(154,261)</b>	<b>(7,744)</b>	<b>(1,200)</b>	<b>(20,119)</b>	<b>(207,487)</b>	<b>(985,613)</b>	<b>(1,193,100)</b>

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Restated 2012/13				2013/14			
Gross Exp £000	Income £000	Net Exp £000		Note	Gross Exp £000	Income £000	Net Exp £000
34,130	(32,408)	1,722	Central Services to the Public		13,679	(8,906)	4,773
46,199	(17,212)	28,987	Cultural and Related Services		43,587	(11,703)	31,884
33,732	(15,931)	17,801	Environmental and Regulatory Services		30,954	(10,202)	20,752
39,918	(19,055)	20,863	Planning and Development Services		14,171	(12,424)	1,747
406,985	(321,964)	85,021	Education and Children's Services		417,993	(327,146)	90,847
38,579	(11,842)	26,737	Highways and Transport Services		37,290	(11,774)	25,516
72,056	(81,276)	(9,220)	Local Authority Housing (HRA)		62,193	(89,867)	(27,674)
170,689	(152,397)	18,292	Other Housing Services		152,684	(143,654)	9,030
147,323	(62,837)	84,486	Adult Social Care		142,538	(42,642)	99,896
-	-	-	Public Health		23,756	(20,521)	3,235
20,421	(14,048)	6,373	Corporate and Democratic Core		15,733	(1,869)	13,864
1,643	(1,710)	(67)	Non Distributed Costs		23,347	(358)	22,989
<b>1,011,675</b>	<b>(730,680)</b>	<b>280,995</b>	<b>Cost of Services</b>	<b>28</b>	<b>977,925</b>	<b>(681,066)</b>	<b>296,859</b>
		5,105	Other Operating Expenditure	9			(10,503)
		34,722	Financing and Investment Income and Expenditure	10			37,381
		-	Surplus or Deficit of Discontinued Operations				-
		(312,616)	Taxation and Non-Specific Grant Income	11			(405,478)
		<b>8,206</b>	<b>(Surplus) or Deficit on Provision of Services</b>				<b>(81,741)</b>
		386	Associates and Joint Ventures Accounted for on an Equity Basis - Authority share of results of associates and joint ventures				
		-	Tax Expenses - Corporation Tax Payable				-
		<b>8,592</b>	<b>(Surplus) or Deficit including Associates &amp; Joint Ventures</b>				<b>(81,741)</b>
		(30,692)	Surplus or Deficit on Revaluation of Property, Plant and Equipment Assets	24			(42,259)
		-	Surplus or Deficit on Revaluation of Available for Sale Financial Assets				-
		79,876	Remeasurement of the Net Defined Benefit Liability	47			136,603
		-	Other Gains/Losses				-
		<b>49,184</b>	<b>Other Comprehensive Income &amp; Expenditure</b>				<b>94,344</b>
		<b>57,776</b>	<b>Total Comprehensive Income &amp; Expenditure</b>				<b>12,603</b>



## BALANCE SHEET

31st March 2012 £000	31st March 2013 £000		Note	31st March 2014 £000
1,896,900	1,873,738	Property, Plant & Equipment	12	1,959,745
50,289	74,844	Heritage Assets	51	80,806
1,101	1,258	Intangible Assets	14	1,691
8,274	8,274	Long Term Investments	15	7,785
307	359	Long Term Debtors	18	2,780
<b>1,956,871</b>	<b>1,958,473</b>	<b>Long Term Assets</b>		<b>2,052,807</b>
50,106	104,365	Short Term Investments	15	116,159
14,775	4,312	Assets Held For Sale (<1 year)	20	19,359
3,809	3,423	Inventories	16	2,953
49,919	56,814	Short Term Debtors	18	53,436
59,586	41,550	Cash and Cash Equivalents	19	85,445
<b>178,195</b>	<b>210,464</b>	<b>Current Assets</b>		<b>277,352</b>
(41,208)	(29,544)	Bank Overdraft	19	(18,329)
(16,853)	(3,611)	Short Term Borrowing	15	(3,510)
(120,223)	(119,458)	Short Term Creditors	21	(125,254)
(4,270)	(4,609)	Provisions (<1 year)	22	(6,003)
<b>(182,554)</b>	<b>(157,222)</b>	<b>Current Liabilities</b>		<b>(153,096)</b>
(9,504)	(10,259)	Provisions (<1 year)	22	(13,361)
(245,135)	(244,314)	Long Term Borrowing	15	(243,108)
(415,256)	(520,568)	Other Long Term Liabilities	15	(722,217)
(31,743)	(43,474)	Capital Grants Receipts in Advance	38	(17,880)
<b>(701,638)</b>	<b>(818,615)</b>	<b>Long Term Liabilities</b>		<b>(996,566)</b>
<b>1,250,874</b>	<b>1,193,100</b>	<b>Net Assets</b>		<b>1,180,497</b>
164,293	207,487	<u>Represented by:</u> Usable Reserves	23	280,687
1,086,581	985,613	Unusable Reserves	24	899,810
<b>1,250,874</b>	<b>1,193,100</b>	<b>Total Reserves</b>		<b>1,180,497</b>



## CASH FLOW STATEMENT

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

2012/13 £000		Note	2013/14 £000
(4,637)	Net surplus or (deficit) on the provision of services		81,741
126,141	Adjustments to net surplus or deficit on the provision of services for non-cash movements		123,130
(66,063)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing or financing activities		(151,195)
<b>55,441</b>	<b>Net cash flows from Operating Activities</b>	<b>25</b>	<b>53,676</b>
(45,454)	Net cash flows from Investing Activities	26	8,544
(16,359)	Net cash flows from Financing Activities	27	(7,110)
<b>(6,372)</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>		<b>55,110</b>
18,378	Cash (in hand) and cash equivalents at the beginning of the reporting period		12,006
<b>12,006</b>	<b>Cash (in hand) and cash equivalents at the end of the reporting period</b>	<b>19</b>	<b>67,116</b>





## **NOTES TO THE ACCOUNTS**

### **1. Statement of Accounting Policies**

#### **i) General Principles**

The Statement of Accounts summarises the City Council's transactions for the 2013/14 financial year and its position at the year end of 31 March 2014. The Council is required to prepare an annual statement by the Accounts and Audit Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. Those practices comprise the Code of Practice on Local Authority accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14 (SeRCOP), supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

#### **ii) Accruals of Income and Expenditure**

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

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

#### **iii) 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.

#### **iv) Exceptional Items**

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

#### **v) Prior Period Adjustments, changes in Accounting Policies and Estimates and Errors**

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

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

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

#### **vi) Charges to Revenue for Non-Current Assets**

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

- Depreciation attributable to the assets used by the relevant service.
- Impairment losses attributable to the clear consumption of economic benefits on non-current assets used by the service where there are no accumulated gains in the Revaluation Reserve against which they can be written off. Where previous impairments have occurred and, subsequently, revaluation gains are made, the gains are first used to credit service revenue accounts, to partially or fully mitigate the impairments.
- Amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, the Council's policy is to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirements (equal to at least 4% of the underlying amount measured by the

adjusted capital financing requirement). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Movement in Reserves Statement, by way of an adjusting transaction within the Capital Adjustment Account for the difference between the two.

## **vii) Employee Benefits**

### **Benefits Payable during employment**

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

### **Termination Benefits**

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

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

### **Post-employment Benefits**

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

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

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

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

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

- The liabilities of the Leicestershire County Council Pension Scheme attributable to Leicester City Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of future earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.3%. This discount rate is calculated by the actuary based on the yield curve of a basket of high-quality corporate bonds with maturity dates and the weighted average duration of the benefit obligation for the Council.
- The assets of the Leicestershire County Council Pension fund attributable to Leicester City Council are included in the Balance Sheet at their fair value:
  - quoted securities - current bid price
  - unquoted securities - professional estimate
  - unitised securities - current bid price
  - property - market value
- The change in the net pensions liability between Balance Sheet dates is analysed into seven components:
  - Current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the CI&ES to the revenue accounts of services for which the employees worked.
  - Past service costs – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the CI&ES as part of Non-Distributed Costs.
  - Net interest on the defined benefit liability – the net of the expected increase in the present value of liabilities over the year arising from the passage of time and the expected return on scheme assets discounted at the discount rate used for the liabilities. This is part of Financing & Investment Income & Expenditure.
  - Gains/losses on settlements and curtailments – the results of actions to relieve the Council of liabilities or events that reduce the expected future service or

accrual of benefits of employees – debited to the Net Cost of Services as part of Non-Distributed Costs.

- Re-measurements of the net defined benefit obligation – this is the change in the net pensions liability over the year attributable to changes in demographic and financial assumptions
- Contributions paid to the Leicestershire County Council Pension Fund – cash paid as employer’s contributions to the pension fund.

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

### **Discretionary Benefits**

The Council also has limited powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers and ex-NHS staff) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### **viii) 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

## **ix) Financial Instruments**

### **Financial Assets**

Financial assets are classified into two types:

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

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

### **Loans and Receivables**

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

### **Soft Loans**

The Council has not entered into any significant or material soft loan arrangements. These are loans made to third parties (usually voluntary organisations) at less than market rates.

### **Impairment**

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

### **Financial Liabilities**

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

## **Repurchase of Borrowing**

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

Where premiums and discounts have been charged to the CI&ES, regulations allow the impact on the General Fund Balance to be spread over future years. The council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CI&ES to the net charge against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account. (This is further detailed in Note 15).

## **x) Government Grants and Contributions**

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

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

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

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

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

## **xi) Intangible Assets**

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

## **xii) Interest in Companies and Other Entities**

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

In 2012-13 the Council reviewed its relationship with these other organisations and has concluded that the preparation of Group Accounts gives no material benefit to users of the Statement of Accounts in terms of their understanding of the Council's financial position. This remains the case in 2013/14.

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

## **xiii) Inventories**

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

## **xiv) Jointly Controlled Operations and Assets**

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

The Council has an interest in a joint purchasing authority – ESPO (Eastern Shires Purchasing Organisation). The Council has determined that this meets the criteria set out within the code as a Joint Arrangement Not an Entity (JANE).

## **xv) Leases**

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

A finance lease is one where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of property, plant or equipment from the lessor to the lessee. In these cases, the lease is accounted for as two parallel but distinct



transactions – the acquisition/disposal of an asset and the giving/receipt of a loan to finance it.

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

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

#### *Council as Lessor*

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

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

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

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

#### *Council as Lessee*

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

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

The asset created is valued and depreciated in the same way as other owned assets, the depreciation being charged to the service using the asset. The depreciation is reversed through the Movement in Reserves Statement and replaced by a prudent annual contribution (MRP) to cover the use of the asset.

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

#### **xvi) Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the Service Reporting Code of Practice 2013/14 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received with the exception of:

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

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

#### **xvii) Property Plant and Equipment**

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

##### *Recognition:*

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

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

##### *Measurement:*

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

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

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

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

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

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

#### *Impairment:*

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

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

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

*Disposals:*

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

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

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

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

A proportion of receipts relating to Housing Revenue Account (HRA) dwellings sold under the Right To Buy (RTB) rules from 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.

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

The written-off value of disposals is not charged against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital

financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

*Depreciation:*

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

Depreciation is calculated on the following bases:

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

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

*Schools:*

Community and Voluntary Controlled schools are included in the Council's Balance Sheet. The following types of schools are excluded:

- a) Academies.
- b) Voluntary Aided Schools (playing fields for some of these are owned by the Council and are included).
- c) Foundation Trust and Free Schools.

**xviii) Heritage Assets**

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

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

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

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

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

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

#### **xix) Private Finance Initiatives**

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

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

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

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

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

## **xx) Provisions, Contingent Liabilities and Assets**

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

Provisions are charged to the appropriate revenue account when the council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not be required the provision is reversed and credited back to the relevant revenue account.

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

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

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

#### **xxi) Reserves**

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

Certain reserves are kept to manage the accounting process for non-current asset, financial instruments, retirement and employee benefits and do not represent useable resources for the Council. These reserves are explained in further detail in Note 24 to the accounts.

#### **xxii) Revenue Expenditure Funded from Capital Under Statute**

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

#### **xxiii) 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.



## **2. Prior Period Adjustments, Changes in Accounting Policies Since 2013/14 & Accounting Standards Issued but not Adopted**

### **Section 1 – Prior Period Adjustments**

The 2013/14 Code of Practice introduced changes to the requirements for accounting for defined benefit pension schemes, reflecting changes to the underlying IAS19 standard.

The change relates to the permitted assumptions around future returns on assets within the pension fund and the presentation of these in the Comprehensive Income & Expenditure Statement (CI&ES). These changes have no impact on the Council's Balance Sheet position but in order for comparative information to be meaningful, the 2012/13 CI&ES and Movement in Reserves Statement (MIRS) have been restated incorporating the amendments. This note details the restatement and explains the reasons behind it.

All information on which pension disclosures are based is derived from actuarial reports supplied by the Council's actuary, Hymans Robertson LLP, who prepare their reports based on information supplied by the Council and the Leicestershire Local Government Pension Fund.

Up to 2012/13, the figure for Pensions Interest & Expected Return on Assets (within Financing & Investment Income & Expenditure – Note 10) was based on expected returns from assets including higher assumptions for different asset classes such as equities. From 2013/14, this figure is based on a discount rate derived from returns on high-quality (i.e. low-risk) corporate bonds. Other re-measurements of the value of plan assets are now included within Other Comprehensive Income & Expenditure.

Comparative information in certain supporting notes to the accounts has also been amended to incorporate the restated values. These are Notes 7, 10, 24 & 47.

Note 47 has also been amended to include a more detailed breakdown of pension scheme assets than has previously been provided. 2012/13 comparative information is included in these accounts, although this was not available at the time of preparing the 2012/13 Statement of Accounts.

### ***Changes to the 2012/13 Comprehensive Income & Expenditure Statement***

	2012/13 Original	Restatement	2012/13 Final
	£000	£000	£000
Cost of Services	281,639	(644)	280,995
Financing & Investment Income & Expenditure	30,509	4,213	34,722
Surplus / Deficit on Provision of Services	4,637	3,569	8,206
Re-measurements on the net defined pensions liability (was: Actuarial gain/loss on pension assets/liabilities)	83,445	(3,569)	79,876
Other Comprehensive Income & Expenditure	52,753	(3,569)	49,184
Total Comprehensive Income & Expenditure	57,776	-	57,776

### ***Changes to the 2012/13 Movement in Reserves Statement***

	<b>Usable Reserves</b>	<b>Unusable Reserves</b>
	<b>£000</b>	<b>£000</b>
<b>Balance at 31<sup>st</sup> March 2012</b>	<b>(164,294)</b>	<b>(1,086,582)</b>
Original Surplus or Deficit on Provision of Services	4,637	-
Original Other Comprehensive Income & Expenditure	-	52,753
Restatement	3,569	(3,569)
<b>Restated Surplus or Deficit on Provision of Services</b>	<b>8,206</b>	<b>49,184</b>
<b>Restated Other Comprehensive Income &amp; Expenditure</b>		
Original adjustments between accounting basis and funding basis under regulations	(54,644)	54,644
Restatement	(3,569)	3,569
<b>Restated adjustments between accounting basis and funding basis under regulations</b>	<b>(58,213)</b>	<b>58,213</b>
Transfers to/from earmarked reserves (unaffected by restatement)	6,814	(6,814)
<b>Restated Balance at 31<sup>st</sup> March 2013 (no overall change due to restatement)</b>	<b>(207,487)</b>	<b>(985,613)</b>

### **Section 2 – Changes in accounting policies**

The accounting policies have been updated to reflect changes to the IAS19 accounting standard covering retirement benefits adopted in the 2013/14 Code of Practice. The impact of these changes is explained in Note 1 and Note 47.

The accounting policies have also been amended to formalise the Council's practice of applying a de minimis limit of £10k to the recognition of property, plant and equipment. Items of capital expenditure below this level are charged to revenue.

### **Section 3 – Accounting standards issued but not adopted**

A number of accounting standards have been issued but will not be adopted under the Code of Practice for Local Authority Accounting until 1 April 2014. If these had been adopted in 2013/14, there would not have been any material impact on the accounts.

Standards relating to accounting for consolidation, joint arrangements and disclosure of involvement in other entities:

- IFRS 10 Consolidated Financial Statements (May 2011)
- IFRS 11 Joint Arrangements (May 2011)
- IFRS 12 Disclosures of Interests in Other Entities (May 2011)
- IAS 27 Separate Financial Statements (as amended May 2011)

- IAS 28 Investments in Associates and Joint Ventures (as amended May 2011)

Standards relating to the presentation of the Statement of Accounts:

- IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities(as amended December 2011)
- IAS 1 Presentation of Financial Statements (as amended May 2011), regarding comparative figures from prior periods

In accordance with the requirements of the Code of Practice for Local Authority Accounting, the adoption of IFRS 13 Fair Value Measurement has been deferred and is now expected to be adopted in the financial year 2015/16.

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

In applying the accounting policies set out in Note 1, 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 management has used its judgement and determined that this uncertainty is not yet sufficient to provide an indication of the effect any future settlements may have on the Council's assets that may need to be impaired or any need to reduce levels of service. It is assumed that it will not have any effect on the Council as being a going concern;

#### **Classification of Leases**

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

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

Since the introduction of the IFRS-based Code, the Council has regularly reviewed the leases it is a party to and has used relevant criteria to assess the nature of each

lease. This process has again been undertaken in 2013/14, with judgements being applied to classify leases in line with the guidance and requirements. Details of leases are included in Note 41.

### **Investment Properties**

Note 13 to these accounts clarifies that the Council judges that it does not hold any property or land solely for the purposes of earning rentals or for capital appreciation, (or both). This judgement is based on, and is consistent with, the Code of Practice definition of investment properties, the Royal Institution of Chartered Surveyors (RICS) valuation standard 5.1, and the Property Division's responsibility for providing a property service which, inter alia, supports service delivery.

### **Business rate appeals**

The authority has applied judgement in calculating the provision for business rate appeals based on data from the Valuation Office Agency (VOA) regarding outstanding appeals where estimates of the likelihood of success, the amount of the reduction and the backdating of the appeal have been based upon averages of historic settled appeals data. Different averages have been calculated for the different types of appeal.

The Council has judged that it should disclose a contingent liability for future appeals against business rates for 2013/14 and prior years. It has judged that it is not possible to estimate the value of future appeals with sufficient reliability to recognise a provision, but has also judged, with reference to reports by rating consultants, that any such liability may be material enough to disclose as a contingent liability.

### **Group Accounts**

From 2012/13 the Council judged that continued preparation of Group Accounts was not necessary under the Code of Practice and was of no material benefit to users of the Statement of Accounts in understanding the Council's financial position. This remains the Council's judgement in 2013/14. Details of associated organisations can be found in Note 39.

#### **4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain.

Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

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

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
Property, Plant & Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	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 £0.5m for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Local Government Pension Scheme, administered by Leicestershire County Council with expert advice about the assumptions to be applied.	The effects of the net pension liability of changes in individual assumptions can be measured. The actuaries have advised that a 0.5% decrease in the Real Discount Rate would mean a 10% increase to the employers liability amounting to approximately £149m. A one year increase in member life expectancy would mean a 3% increase in employers liability amounting to approximately £43m. A 0.5% increase in the Pension Increase Rate would mean a 7% increase to the employers liability amounting to £96m. A 0.5% increase in the projected rate of salary increased would lead to an increased liability of 4% or £51m.
PFI Schemes	Total payments due under the existing PFI schemes have to be split between payments for services, reimbursement of capital expenditure, interest, lifecycle costs etc. The split is arrived at by using financial models that contain inherent uncertainties and assumptions.	It is not possible to quantify the potential effect of these uncertainties on the PFI liabilities included in the accounts.

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

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

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

These draft accounts were authorised for issue by the Director of Finance on 30<sup>th</sup> June 2014, at which time there have been no material events after the reporting date to be disclosed in these financial statements.

## 7. Adjustments between Accounting Basis and Funding Basis under Regulations

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

2013/14	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movemt in Unusable Reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Account:</b>						
Charges for depreciation, impairment and amortisation of non-current assets	(77,998)	(306)		(7,262)		85,566
Revaluation losses on Property Plant and Equipment	(7,330)					7,330
Movements in the market value of Investment Property						
HRA Settlement						
Capital grants and contributions applied	45,395					(45,395)
Capital expenditure funded from revenue	41	199				(240)
Revenue expenditure funded from capital under statute	(6,505)					6,505
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	(2,046)	(1,905)				3,951
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Account:</b>						
Statutory provision for the financing of capital investment	12,049					(12,049)
Voluntary provision for the financing of capital expenditure	6,005		2,101			(8,106)
Capital expenditure charged against the General Fund and HRA balances	44,033	18,481				(62,514)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	5,021	6,795	(12,498)			682
Use of the Capital Receipts Reserve to finance new capital expenditure						
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals						
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool		(1,480)	1,480			

2013/14 continued	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>						
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			(10)			10
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	62					(62)
<b>Adjustments primarily involving the Major Repairs Reserve:</b>						
Reversal of Major Repairs Allowance credited to the HRA						
Use of the Major Repairs Reserve to finance new capital expenditure		(7,262)		7,262		
<b>Adjustments primarily involving the Capital Grants Unapplied Reserve:</b>						
Reversal of Major Repairs Allowance credited to the HRA	57,538				(57,538)	
Use of the Major Repairs Reserve to finance new capital expenditure						
<b>Adjustments primarily involving the Financial Instruments Adjustments Account:</b>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(819)	903				(84)
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(55,750)	(5,606)				61,356
Employer's pensions contributions and direct payments to pensioners payable in the year	32,212	2,997				(35,209)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	704					(704)
<b>Adjustment primarily involving the Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in	5,260	75				(5,335)
<b>Adjustment primarily involving the ESPO Reserve:</b>						
Reversal of items relating to ESPO debited or credited to the Comprehensive Income and Expenditure Statement	(1,305)					1,305
<b>Total Adjustments</b>	<b>56,567</b>	<b>12,891</b>	<b>(8,927)</b>	<b>-</b>	<b>(57,538)</b>	<b>(2,993)</b>



Restated 2012/13 Comparative Information	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Movemt in Unusable Reserves
	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>					
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Account:</b>					
Charges for depreciation, impairment and amortisation of non-current assets	(45,186)	(18,717)		(6,723)	70,626
Revaluation losses on Property Plant and Equipment	(16,842)	1,838			15,004
Movements in the market value of Investment Property					
HRA Settlement					
Capital grants and contributions applied	34,170				(34,170)
Capital expenditure funded from revenue		12,151			(12,151)
Revenue expenditure funded from capital under statute	(1,203)				1,203
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	(16,635)	3,048	(20,671)		34,258
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Account:</b>					
Statutory provision for the financing of capital investment	20,440	64			(20,504)
Capital expenditure charged against the General Fund and HRA balances					
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement					
Use of the Capital Receipts Reserve to finance new capital expenditure			2,883		(2,883)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals					
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1,198)		1,198		
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>					
Transfer from Deferred Capital Receipts Reserve upon receipt of cash					

Restated 2012/13 Comparative Information continued	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Movemt in Unusable Reserves
	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the Major Repairs Reserve:</b>					
Reversal of Major Repairs Allowance credited to the HRA					
Use of the Major Repairs Reserve to finance new capital expenditure				6,724	(6,724)
<b>Adjustments primarily involving the Financial Instruments Adjustments Account:</b>					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(827)	934			(107)
<b>Adjustments primarily involving the Pensions Reserve:</b>					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(46,694)	(1,103)			47,797
Employer's pensions contributions and direct payments to pensioners payable in the year	33,158				(33,158)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>					
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	367				(367)
<b>Adjustment primarily involving the Accumulated Absences Account:</b>					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	599	22			(621)
<b>Total Adjustments</b>	<b>(39,851)</b>	<b>(1,763)</b>	<b>(16,600)</b>	<b>1</b>	<b>58,213</b>

## 8. Earmarked Reserves

Earmarked reserves are amounts set aside from the General Fund and HRA to provide financing for future expenditure plans. During the year they may be used to fund expenditure and additional amounts may be set aside.

The table below provides a list of earmarked reserves held by the Council at the end of the financial year. A brief explanation of the nature and purpose of the more significant reserves is also provided below.

2013/14	Balance at 31st March 2013 £000	Transfers In 2013/14 £000	Transfers Out 2013/14 £000	Balance at 31st March 2014 £000
<b>General Fund Earmarked Reserves:</b>				
Building Schools for the Future - Financing	37,027	1,506	(14,967)	23,566
School Balances	24,651	1,881	(5,131)	21,401
Capital Reserve	25,957	42,037	(48,767)	19,227
Children's Services Funds	8,055	9,550	(556)	17,049
NHS Joint Working Projects	12,957	3,031	(2,472)	13,516
Severence Fund	9,271	6,500	(2,424)	13,347
Insurance Fund	5,382	8,793	(6,767)	7,408
Schools Capital Fund	5,449	1,826	(2,730)	4,545
Public Health	3,313	-	-	3,313
Welfare Reform Reserve	-	3,176	(186)	2,990
City Development & Neighbourhoods	2,874	1,635	(1,520)	2,989
Service Transformation Fund	-	2,747	-	2,747
Connexions Closure	1,797	390	-	2,187
Financial Services Divisional Reserve	1,720	922	(1,057)	1,585
Energy Reduction Reserve	312	1,050	-	1,362
Looked After Children Placements	-	1,330	-	1,330
Schools Buy Back	1,136	2,080	(1,940)	1,276
Job Evaluation (inc Schools Catering)	1,225	-	-	1,225
Social Care Replacement IT System	2,099	1,602	(2,483)	1,218
Economic Action Plan	1,129	897	(858)	1,168
IT Reserves	2,050	686	(1,640)	1,096
Strategic Initiatives	1,043	286	(286)	1,043
Preventing Homelessness	936	-	-	936
HR Divisional Reserve	701	-	(24)	677
Housing Divisional Reserve	401	450	(200)	651
Highways Maintenance	418	-	-	418
Legal Services Divisional Reserve	380	27	(27)	380
Delivery Communications & Political Governance	300	38	-	338
Individual Electronic Registration	-	380	-	380
Housing-related Support Reserve	609	70	(348)	331
City Council Elections	100	200	-	300
Other - Miscellaneous Reserves	2,969	3,797	(4,271)	2,495
<b>Total General Fund Earmarked Reserves</b>	<b>154,261</b>	<b>96,887</b>	<b>(98,654)</b>	<b>152,494</b>
<b>Housing Revenue Account Earmarked Reserve:</b>				
Housing Maintenance	-	-	-	-
<b>Total HRA Earmarked Reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Earmarked Reserves</b>	<b>154,261</b>	<b>96,887</b>	<b>(98,654)</b>	<b>152,494</b>

2012/13 Comparative Information	Balance at 1st April 2012 £000	Transfers In 2012/13 £000	Transfers Out 2012/13 £000	Balance at 31st March 2013 £000
<b>General Fund Earmarked Reserves:</b>				
Building Schools for the Future - Financing	31,279	6,067	(319)	37,027
Capital Reserve	17,182	15,689	(6,914)	25,957
School Balances	21,535	5,898	(2,782)	24,651
NHS Joint Working Projects	10,337	3,750	(1,130)	12,957
Severence Fund	5,042	6,500	(2,271)	9,271
Children's Services Funds	8,151	2,828	(2,924)	8,055
Schools Capital Fund	4,776	993	(320)	5,449
Insurance Fund	5,823	9,146	(9,587)	5,382
Public Health	2,752	2,113	(1,552)	3,313
City Development & Neighbourhoods	751	2,166	(43)	2,874
Social Care Replacement IT System	1,650	551	(102)	2,099
IT Reserves	1,555	560	(65)	2,050
Connexions Closure	2,000	508	(711)	1,797
Financial Services Divisional Reserve	130	1,590	-	1,720
Job Evaluation (inc Schools Catering)	3,072	5,160	(7,007)	1,225
Economic Action Plan	6,220	-	(5,091)	1,129
Schools Buy Back	1,028	135	(27)	1,136
Strategic Initiatives	2,236	1,173	(2,366)	1,043
Preventing Homelessness	882	54	-	936
Adult Social Care	695	577	(356)	916
HR Divisional Reserve	-	701	-	701
Housing-related Support Reserve	679	-	(70)	609
Hamilton Development - Bond	-	475	-	475
Highways Maintenance	408	10	-	418
Housing Divisional Reserve	131	270	-	401
Legal Services Divisional Reserve	-	380	-	380
Energy Reduction Reserve	-	312	-	312
Delivery Communications & Political Governance	379	300	(379)	300
Other - Miscellaneous Reserves	2,750	9,383	(10,455)	1,678
<b>Total General Fund Earmarked Reserves</b>	<b>131,443</b>	<b>77,289</b>	<b>(54,471)</b>	<b>154,261</b>
<b>Housing Revenue Account Earmarked Reserve:</b>				
Housing Maintenance	-	-	-	-
<b>Total HRA Earmarked Reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Earmarked Reserves</b>	<b>131,443</b>	<b>77,289</b>	<b>(54,471)</b>	<b>154,261</b>

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

The amount of money held in this reserve has decreased from £24.7m to £21.4m following this year's outturn. This money is, by law, ring fenced to individual schools.

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

This reserve was set up in January 2007 to meet the capital financing costs associated with the BSF programme. Funding for the costs of borrowing to meet the BSF programme has already been made available by the DCSF (now DFE). As this was provided in advance of need, it needs to be set aside, together with the interest earned on its investment, until required. The balance at year-end stands at £23.4m.

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

This amount comprises £14.6m of ring-fenced school reserves which are not devolved to schools. These monies are ring-fenced to the schools block and not available for general spending. In addition, the department holds £2.3m of reserves, which are held for commitments with regard to Building Schools for the Future and Leicester's Raising Achievement Plan (£0.1m).

### **Capital Reserve**

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

### **NHS Joint Working Projects**

This reserve was set up in 2011/12 and stands at £13.5m as at year end. The Government is increasingly providing money (via the NHS) for joint working between adult social care and the NHS. The use of this funding has to be agreed with the NHS and will be used for on-going projects. All funds directed in this way are subject to section 256 agreements which need to be signed by both parties.

### **Severance Fund**

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

## **9. Other Operating Expenditure**

	<b>2012/13 £000</b>	<b>2013/14 £000</b>
Levies	81	74
Payments to the government Housing Capital Receipts Pool	1,198	1,480
Total gains/losses on the disposal of non-current assets	2,735	(8,667)
Costs of sale – assets held for sale	(364)	682
Other operating income and expenditure	1,455	(4,072)
<b>Total</b>	<b>5,105</b>	<b>(10,503)</b>

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

	<b>2012/13 Restated £000</b>	<b>2013/14 £000</b>
Interest payable and similar charges	18,767	19,197
Pensions interest cost and expected return on pensions assets	15,184	19,661
Other investment income	127	(1,477)
<b>Total</b>	<b>34,078</b>	<b>37,381</b>

## 11. Taxation and Non-Specific Grant Income

	2012/13 £000	2013/14 £000
Council Tax income	(98,734)	(78,968)
Non domestic rates	(176,295)	(88,183)
Non-ringfenced government grants	(3,417)	(134,794)
Capital grants and contributions	(34,170)	(103,533)
<b>Total</b>	<b>(312,616)</b>	<b>(405,478)</b>

## 12. Property, Plant & Equipment

Movements in Balances 2013/14	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>									
At 1st April 2013	606,271	972,080	71,510	230,065	1,127	93,293	2,236	1,976,582	65,057
Additions	17,494	103,905	3,307	12,997	224	2,395	22,476	162,798	44,598
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	(4)	29,008	-	1,790	688	1,047	-	32,529	-
Revaluation Decreases / Increases not recognised in the Revaluation Reserve	(6,857)	(55,821)	(82)	(291)	(254)	(2,708)	-	(66,013)	-
De-recognition – disposals	(1,905)	(63)	(21)	-	-	(1,317)	-	(3,306)	-
Assets reclassified (to) / from Held for Sale	-	(8,973)	-	-	-	(6,303)	-	(15,276)	-
Asset reclassified (other)	-	5,391	-	-	-	64	(5,455)	-	-
Other movements in cost or valuation	-	(1,999)	(130)	-	-	(132)	-	(2,261)	-
<b>As at 31st March 2014</b>	<b>614,999</b>	<b>1,043,528</b>	<b>74,584</b>	<b>244,561</b>	<b>1,785</b>	<b>86,339</b>	<b>19,257</b>	<b>2,085,053</b>	<b>109,655</b>
<b>Accumulated Depreciation &amp; Impairment</b>									
At 1st April 2013	(6,540)	(33,642)	(31,745)	(30,874)	-	(73)	-	(102,844)	(4,108)
Depreciation Charge	(6,645)	(15,176)	(8,291)	(5,733)	-	(46)	-	(35,891)	(2,933)
Depreciation written out to Revaluation Reserve	(3)	2,374	-	-	-	8	-	2,379	-
Depreciation written out to the Surplus/Deficit on the provision of services	6,542	3,952	-	-	-	1	-	10,495	-
De-recognition – disposals	-	543	3	-	-	7	-	553	-
<b>As at 31st March 2014</b>	<b>(6,646)</b>	<b>(41,949)</b>	<b>(40,003)</b>	<b>(36,607)</b>	<b>-</b>	<b>(103)</b>	<b>-</b>	<b>(125,308)</b>	<b>(7,041)</b>
<b>Net Book Value as at 31st March 2014</b>	<b>608,353</b>	<b>1,001,579</b>	<b>34,581</b>	<b>207,954</b>	<b>1,785</b>	<b>86,236</b>	<b>19,257</b>	<b>1,959,745</b>	<b>102,614</b>
As at 1st April 2013	599,731	938,438	39,795	199,191	1,127	93,220	2,236	1,873,738	60,949

<b>2012/13 Comparative Movements</b>	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>									
At 1st April 2012	625,414	976,656	52,746	223,846	2,393	106,688	1,624	<b>1,989,367</b>	50,736
Additions	17,037	32,203	19,459	7,690	-	1,621	2,236	<b>80,246</b>	14,321
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	(19,410)	6,404	-	(76)	(71)	(3,014)	-	<b>(16,167)</b>	-
Revaluation Decreases / Increases not recognised in the Revaluation Reserve	(15,278)	(31,906)	(92)	(1,395)	(165)	(382)	-	<b>(49,218)</b>	-
De-recognition – disposals	(1,615)	(13,110)	(90)	-	-	(19,838)	-	<b>(34,653)</b>	-
Assets reclassified (to) / from Held for Sale	123	-	-	-	-	8,021	-	<b>8,144</b>	-
Asset reclassified (other)	-	2,457	-	-	(1,030)	197	(1,624)	-	-
Other movements in cost or valuation	-	(624)	(513)	-	-	-	-	<b>(1,137)</b>	-
<b>As at 31st March 2013</b>	<b>606,271</b>	<b>972,080</b>	<b>71,510</b>	<b>230,065</b>	<b>1,127</b>	<b>93,293</b>	<b>2,236</b>	<b>1,976,582</b>	<b>65,057</b>
<b>Accumulated Depreciation &amp; Impairment</b>									
At 1st April 2012	(19,401)	(24,392)	(23,310)	(25,304)	-	(59)	-	<b>(92,466)</b>	(1,642)
Depreciation Charge	(6,540)	(14,724)	(8,855)	(5,570)	-	(23)	-	<b>(35,712)</b>	(2,466)
Depreciation written out to Revaluation Reserve	19,401	2,488	-	-	-	7	-	<b>21,896</b>	-
Depreciation written out to the Surplus/Deficit on the provision of services	-	2,986	450	-	-	2	-	<b>3,438</b>	-
De-recognition – disposals	-	-	-	-	-	-	-	-	-
<b>As at 31st March 2013</b>	<b>(6,540)</b>	<b>(33,642)</b>	<b>(31,715)</b>	<b>(30,874)</b>	<b>-</b>	<b>(73)</b>	<b>-</b>	<b>(102,844)</b>	<b>(4,108)</b>
<b>Net Book Value as at 31st March 2013</b>	<b>599,731</b>	<b>938,438</b>	<b>39,795</b>	<b>199,191</b>	<b>1,127</b>	<b>93,220</b>	<b>2,236</b>	<b>1,873,738</b>	<b>60,949</b>
As at 31st March 2012	606,013	952,264	29,436	198,542	2,393	106,629	1,624	<b>1,896,901</b>	49,094

### **Capital Commitments**

At 31<sup>st</sup> March 2014, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/14 and future years. Similar commitments at 31<sup>st</sup> March 2013 were £146.3m. The major commitments are:

<b>Contract for Capital Investment</b>	<b>Period</b>	<b>£000</b>
Housing - Electrical rewire & upgrades	2016/17	10,700
Street Lighting	2016/17	10,630
Administrative buildings	2015/16	9,122
Housing - Materials for kitchens & bathrooms	2015/16	9,000
Hamilton & Netherhall - BSF New Build & ICT**	2015/16	8,624
Lancaster - BSF New Build & ICT**	2014/15	7,620
English Martyrs - BSF New Build & ICT**	2014/15	6,688
Babington - BSF New Build & ICT**	2015/16	5,577
Moat - BSF New Build & ICT**	2014/15	5,351
St Pauls - BSF New Build & ICT**	2014/15	4,757
Sir Jonathan North- BSF New Build & ICT**	2015/16	3,962
Food Park	2014/15	3,921
Ellesmere - BSF New Build & ICT**	2014/15	3,785
Westgate - BSF New Build & ICT**	2014/15	3,522
New College - BSF New Build & ICT**	2014/15	3,486
Braunstone Frith Junior	2014/15	2,815
King Richard III Visitor Centre	2014/15	2,655
Housing - Structural works and repairs	2015/16	2,250
Ashfield - BSF New Build & ICT**	2014/15	1,980
Housing - Kitchens & bathrooms refurbishment	2014/15	1,962
Market redevelopment - Phase 1	2014/15	1,711
Housing - Roofing	2016/17	1,660
Cathedral Gardens	2014/15	1,339
Housing - Roofing repairs	2016/17	1,300
Housing - Electrical repairs	2016/17	1,300
Catherine Junior	2014/15	1,151
Housing - replacement of soffits and fascias	2015/16	1,000
Eyres Monsell Primary	2014/15	955
Keyham Lodge - BSF New Build & ICT**	2014/15	930
Jubilee Square	2014/15	874
Housing - Boiler replacements	2014/15	562
Housing - Fire alarms - install and maintain	2015/16	365
Housing - Framland House refurbishment	2014/15	339
Mowmacre Hill Primary	2014/15	330
Housing - supply and fit windows and doors	2015/16	229
Millgate - BSF New Build & ICT**	2014/15	111
<b>Total</b>		<b>122,563</b>

\* Door entry systems contain some revenue cost elements.

\*\* BSF (Building Schools for the Future) sums exclude VAT but not all will be re-claimable. Commitments relating to existing and new PFI schemes are included in Note 42.

## **Revaluations**

The Council carries out a rolling programme that ensures that all property and land required to be measured at fair value (subject to a de minimis of £10k for asset values) is revalued at least every five years. The table on the next page shows that there are some exceptions to this objective. Valuations of Council Dwellings are carried out by a specialist external valuer each year. All other valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of the majority of vehicles, plant, equipment and furniture, and of infrastructure, are based on historical cost.



The significant assumptions applied in estimating the fair values are:

- a. No high alumina cement, asbestos or other deleterious material was used in the construction of any property and that none has been subsequently incorporated.
- b. As regards asbestos, the Council maintains a register of those properties that contain asbestos as part of an active management programme. The impact on valuation has therefore been disregarded.
- c. That the properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoing and that good titles can be shown.
- d. That the properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and that the use and occupation are both legal.
- e. That there are no adverse soil and ground conditions and that there is no effect from contaminated land.
- f. That no allowances have been made for any rights, obligations or liabilities arising from the Defective Premises Act 1972, The Equalities Act 2010, Health & Safety at Work Act or the Offices, Shops and Railway Premises Act or any amended legislation.
- g. That inspection of those parts which have not been inspected would not cause us to alter our opinion or value.

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

2013/14 Valuation Dates	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure	Community	Surplus	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Historical Cost	-	46,538	27,850	205,098	40	201	19,257	298,984
Valued @ 31st March 2014	608,353	-	-	-	-	-	-	608,353
Valued at fair or nominal value as at:	-	-	-	-	-	-	-	-
Pre 1st April 2009	-	1,009	-	-	156	560	-	1,725
1st April 2009	-	119,822	-	549	583	1,184	-	122,138
1st April 2010	-	307,097	-	-	-	3,832	-	310,929
1st April 2011	-	300,694	6,731	-	10	973	-	308,408
1st April 2012	-	124,142	-	517	202	52,991	-	177,852
1st April 2013	-	102,277	-	1,790	794	26,495	-	131,356
<b>Total</b>	<b>608,353</b>	<b>1,001,579</b>	<b>34,581</b>	<b>207,954</b>	<b>1,785</b>	<b>86,236</b>	<b>19,257</b>	<b>1,959,745</b>

### **13. Investment Properties**

The Code Of Practice On Local Authority Accounting (2012/13) defines Investment Property as “.....property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both.....” All the land or buildings that the Council holds are for economic support reasons even if they earn rentals or appreciate over time. Accordingly no investment properties are identified in the Balance Sheet.

### **14. Intangible Assets**

The Council accounts for its computer software as an intangible asset, 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.

	<b>2012/13 £000</b>	<b>2013/14 £000</b>
<b>Balance at 1st April</b>		
Gross Carrying Amounts	1,403	1,794
Accumulated Amortisation	(301)	(536)
<b>Net carrying amount at start of year</b>	<b>1,102</b>	<b>1,258</b>
Additions		
Purchases	674	807
Change in LCC ESPO share	(33)	-
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	(250)	(43)
Amortisation Applied in Year	(235)	(331)
<b>Gross Carrying Amount at 31st March</b>	<b>1,794</b>	<b>2,558</b>
Accumulated Amortisation	(536)	(867)
<b>Net Carrying Amount at 31st March</b>	<b>1,258</b>	<b>1,691</b>

## 15. Financial Instruments

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

	Long Term		Current		Total	
	2013	2014	2013	2014	2013	2014
	£000	£000	£000	£000	£000	£000
Investments	8,274	7,785	104,365	116,159	112,639	123,944
Receivables (Debtors)	358	323	23,066	19,713	23,424	20,036
Receivables (Other)	-	-	26,974	31,326	26,974	31,326
<b>Investments &amp; Receivables</b>	<b>8,632</b>	<b>8,108</b>	<b>154,405</b>	<b>167,198</b>	<b>163,037</b>	<b>175,306</b>
Loans	244,314	243,108	3,611	3,510	247,925	246,618
Payables (Creditors)	-	-	119,620	122,455	119,620	122,455
<b>Loans &amp; Payables</b>	<b>244,314</b>	<b>243,108</b>	<b>123,231</b>	<b>125,965</b>	<b>367,545</b>	<b>369,073</b>
<b>Other Long Term Liabilities</b>						
Leicestershire County Council	29,887	28,642	-	-	29,887	28,642
PFI and finance lease liabilities	56,639	96,308	2,797	4,449	59,436	100,757
<b>Total Other Long Term Liabilities</b>	<b>86,526</b>	<b>124,950</b>	<b>2,797</b>	<b>4,449</b>	<b>89,323</b>	<b>129,399</b>
<b>Total Loans, Payables and Other Long Term Liabilities</b>	<b>330,840</b>	<b>368,058</b>	<b>126,028</b>	<b>130,414</b>	<b>456,868</b>	<b>498,472</b>

All financial instruments are carried at amortised cost. The table excludes investments classified as being equivalent to cash which are included in the total for cash and cash equivalents shown on the Balance Sheet. The table above only includes items which are financial instruments. The Balance Sheet figures for receivables and payables include elements which are not financial instruments and hence will be greater than the figures shown above.

The most significant difference in the Balance Sheet arises in respect of the pension liabilities of the Council which are a long-term liability but are not categorised as a financial instrument. The table below compares the total of other long-term liabilities with the figure shown in the table above.

	Balance at 31st March 2013 £000	Balance at 31st March 2014 £000
Long term element of Other Long Term Liabilities shown in above table	86,526	124,950
Long term pension liability	434,042	596,792
Performance Bond - Hamilton Partnership	-	475
<b>Investments &amp; Receivables</b>	<b>520,568</b>	<b>722,217</b>

Interest receivable, payable and other similar expenses have been recognised as follows:

	2012/13			2013/14		
	Financial Liabilities Measured at Amortised Cost	Financial Assets: Loans and Receivables	Total	Financial Liabilities Measured at Amortised Cost	Financial Assets: Loans and Receivables	Total
	£000	£000	£000	£000	£000	£000
Interest Expense	18,592	-	18,592	19,745	-	19,745
<b>Total Expense in Surplus or Deficit on the Provision of Services</b>	<b>18,592</b>	<b>-</b>	<b>18,592</b>	<b>19,745</b>	<b>-</b>	<b>19,745</b>
Interest Income	-	(272)	(272)	-	(812)	(812)
<b>Total Income in Surplus or Deficit on the Provision of Services</b>	<b>-</b>	<b>(272)</b>	<b>(272)</b>	<b>-</b>	<b>-</b>	<b>(812)</b>
<b>Net gain/(loss) for the Year</b>	<b>18,592</b>	<b>(272)</b>	<b>18,320</b>	<b>19,745</b>	<b>-</b>	<b>18,933</b>

### ***Fair Values of Assets and Liabilities***

The following table discloses the fair value of financial instruments:

	31st March 2013		31st March 2014	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Assets</b>				
Loans	104,365	104,365	116,159	116,159
Investments - deposits	8,274	8,274	7,785	7,785
Payables	50,399	50,399	51,362	51,362
<b>Total Assets</b>	<b>163,038</b>	<b>163,038</b>	<b>175,306</b>	<b>175,306</b>
<b>Liabilities</b>				
Loans	247,925	293,539	246,618	261,264
Other Long Term Liabilities	89,323	89,323	129,399	129,399
Payables	119,621	119,621	122,455	122,455
<b>Total Liabilities</b>	<b>456,869</b>	<b>502,483</b>	<b>498,472</b>	<b>513,118</b>

For loans borrowed directly by the Council the fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments. For each loan the discount rate used is the interest rate that it is estimated would be paid if the Council were to borrow a new loan with a similar maturity to the residual life of the loan from a similar lender on similar terms.

The relevant lenders are the Public Works Loans Board (PWLB) and market lenders such as banks and insurance companies. For a number of loans whose value is immaterial the fair value is assessed as being equal to the carrying amount. In addition the fair value of temporary loans is also assessed as being equal to the carrying amount.

The following table summarises the calculation of fair value and the assumptions used for loans borrowed directly by the Council. The carrying amount of the loans comprises the nominal value plus accrued interest at year end. In addition where the

interest rate paid over the life of the loan varies the outstanding loan balance is calculated on the basis of the average interest rate over the expected life of the loan and not on the contractual rate, and this gives rise to an “equated interest adjustment”. Fair values are calculated loan by loan and the table shows the highest discount rate used, the lowest and the average. The table shows fair values as at 31<sup>st</sup> March 2014 and at 31<sup>st</sup> March 2013.

Where a loan has a fair value in excess of the carrying amount this indicates that, notionally, lower interest rates would have been paid (compared to the loan interest rates actually paid) if new loans had been taken out on similar terms at the Balance Sheet date. Fair values below the carrying amount indicate the opposite.

The assets and liabilities described in this note are carried in the Balance Sheet at amortised cost. The only exception is receivables where the amount held is reduced by a provision for bad debts. The fair values quoted in this note are for disclosure purposes only and the Council does not account for the difference between amortised cost and fair value within its accounts, and neither does it account for changes in fair value.

	Fair Value of Loans as at 31st March 2014		
	PWLB £	Market £	Stock £
Nominal Value at 31st March 2014	134,491	96,300	8,567
Accrued interest	1,253	841	108
Equated interest adjustment	-	3,781	-
<b>Carrying Value at 31st March 2014</b>	<b>135,744</b>	<b>100,922</b>	<b>8,675</b>
<b>Fair Value at 31st March 2014</b>	<b>135,744</b>	<b>100,916</b>	<b>8,675</b>
Lowest discount rate	4.50%	3.97%	2.87%
Highest discount rate	4.52%	4.02%	2.87%
Average discount rate	4.51%	4.02%	2.87%

	Fair Value of Loans as at 31st March 2013		
	PWLB £	Market £	Stock £
Nominal Value at 31st March 2013	134,491	96,300	8,567
Accrued interest	1,253	836	108
Equated interest adjustment	-	3,780	-
<b>Carrying Value at 31st March 2013</b>	<b>135,744</b>	<b>100,916</b>	<b>8,675</b>
<b>Fair Value at 31st March 2013</b>	<b>135,744</b>	<b>100,916</b>	<b>8,675</b>
Lowest discount rate	4.24%	3.26%	1.98%
Highest discount rate	4.25%	3.30%	1.98%
Average discount rate	4.25%	3.27%	1.98%

The fair value of payables and receivables is cost and the fair value of short-term deposits is assessed to be the carrying amount.

The long term investments included in the first table of this note have a carrying amount of £7.8m at 31/03/2014 (£8.3m at 31/03/2013) and reflect grants which are repayable in the event that qualifying conditions cease to apply. The value of such

investments is difficult to assess but is expected to at least equal the carrying amount, and on this basis the fair value is estimated to be the carrying amount.

For other financial instruments the fair value is estimated to equal the carrying amount. This reflects a judgement that there is no available market information of the interest rates and other terms on which similar transactions would be undertaken between willing parties operating on an arms-length basis. The main items affected are other long-term liabilities as shown in the first table of this note.

## **16. Inventories**

The value of inventories as at 31st March 2014 is shown in the table below:

	<b>Balance at 31st March 2013 £000</b>	<b>Balance at 31st March 2014 £000</b>
Consumable Stores	994	341
Maintenance Materials	1,916	2,093
Short-term deposits with local authorities - PSR element	513	519
<b>Total</b>	<b>3,423</b>	<b>2,953</b>

## **17. Construction Contracts**

At 31<sup>st</sup> March 2014 the City Council had no significant construction contracts (contracts being managed on behalf of other parties) in progress.

## **18. Debtors**

### ***Long-Term Debtors***

	<b>Balance at 31st March 2013 £000</b>	<b>Balance at 31st March 2014 £000</b>
Mortgages	52	41
Car Loans to Employees	200	119
PFI (CHP)	107	2,620
<b>Total</b>	<b>359</b>	<b>2,780</b>

## Short-Term Debtors

	Balance at 31st March 2013 £000	Balance at 31st March 2014 £000
Central Government bodies	10,386	16,085
Other Local Authorities	4,537	2,307
NHS bodies	5,915	5,381
Public Corporations and Trading Funds	13	-
Other Entities and Individuals	24,542	23,196
Payments in Advance	5,352	5,859
Capital Debtors	6,069	608
<b>Total</b>	<b>56,814</b>	<b>53,436</b>

Each line item is presented net of impairment.

## 19. Cash and Cash Equivalents

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

	Balance at 31st March 2013 £000	Balance at 31st March 2014 £000
<b>Cash and cash equivalents:</b>		
Cash held by the Council	222	215
Bank	27,224	17,992
Short-term deposits with local authorities - Investment	13,499	67,238
Short-term deposits with local authorities - PSR element	605	-
<b>Total Cash and Cash Equivalents</b>	<b>41,550</b>	<b>85,445</b>
Overdraft	(29,544)	(18,329)
<b>Total Cash and Cash Equivalents</b>	<b>12,006</b>	<b>67,116</b>

## 20. Assets Held for Sale

	2012/13 £000	2013/14 £000
<b>Balance outstanding at start of year</b>	<b>14,775</b>	<b>4,312</b>
Property, Plant and Equipment newly classified as Held for Sale	-	16,129
Property, Plant and Equipment declassified	(8,144)	(1,396)
Assets Sold	-	(166)
Other Adjustments	(2,319)	480
<b>Balance outstanding at end of year</b>	<b>4,312</b>	<b>19,359</b>

As at the 31<sup>st</sup> March 2014 the Council had a total of £19.4m assets defined as held for sale. These are shown separately on the Balance Sheet and the assets meet the four main criteria of the code, namely;

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

## 21. Creditors

	Balance at 31st March 2013 £000	Balance at 31st March 2014 £000
Central Government bodies	34,608	22,464
Other Local Authorities	8,778	6,857
NHS bodies	628	889
Public Corporations and Trading Funds	215	168
Other Entities and Individuals	47,749	55,423
Payments in Advance	24,342	26,192
Capital Debtors	3,138	13,261
<b>Total</b>	<b>119,458</b>	<b>125,254</b>

## 22. Provisions

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

	Insurance £000	Housing Benefits £000	Equal Pay £000	Sec 117 Mental Health Act £000	Housing DSO Stock & Dilapidation £000	Business Rate Appeals £000	Total £000
<b>Balance at 1st April 2012</b>	<b>5,650</b>	<b>4,742</b>	<b>1,766</b>	<b>700</b>	<b>916</b>	<b>-</b>	<b>13,774</b>
Net Movement (additions less amounts used)	140	967	(33)	-	20	-	1,094
<b>Balance at 1st April 2013</b>	<b>5,790</b>	<b>5,709</b>	<b>1,733</b>	<b>700</b>	<b>936</b>	<b>-</b>	<b>14,868</b>
Additional provisions made in 2013/14	-	2,753	-	-	29	3,553	6,335
Amounts used in 2013/14	(478)	(1,245)	(69)	(25)	(22)	-	(1,839)
<b>Balance at 31st March 2014</b>	<b>5,312</b>	<b>7,217</b>	<b>1,664</b>	<b>675</b>	<b>943</b>	<b>3,553</b>	<b>19,364</b>

These provisions are described in more detail below.

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

The Authority holds funds to meet the costs of insurance claims, for both claims received but not yet settled and claims that will be received in the future. The sum of £5.3m is held as a provision, being the amount estimated by the Council's actuaries that will be required to meet claims already received. A further sum of £7.4m is held as an earmarked reserve (as per Note 8), to meet the costs of liabilities incurred for which claims have not been received.

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

The 2011/12, 2011/12 and 2013/14 benefit subsidy grant claims are outstanding. This could potentially result in a claw back of subsidy from the City



Council by the Department of Work and Pensions. Accordingly, provisions totalling £7.2m have been established within the accounts.

### ***Equal Pay***

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

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

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

### ***Housing DSO Stock***

This sum is held against obsolete or damaged stock within the Housing Direct Service Organisation as at 31st March 2013.

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

Along with the introduction of local management of business rates, authorities are expected to finance backdated appeals made in respect of rateable values as defined by the Valuation Office (VOA), outstanding as at 31 March 2014. Therefore a provision has been charged to the collection fund calculated at a total of £7.251m (Council share of £3.553m).

## **23. 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.

	<b>Opening Balance £000</b>	<b>Movement £000</b>	<b>Closing Balance £000</b>	<b>Supporting Note</b>
General Fund	(24,163)	(1,777)	(25,940)	MIRS and Explanatory Foreword
Earmarked Reserves	(154,261)	1,767	(152,494)	Note 8 and Explanatory Foreword
Housing Revenue Account	(7,744)	(6,725)	(14,469)	HRA Statement
Major Repairs Reserve	(1,200)	-	(1,200)	Note 7 and HRA Note 14
Capital Receipts Reserve	(20,119)	(8,927)	(29,046)	Note 7 and Note 40
Capital Grants Unapplied Reserve	-	(57,538)	(57,538)	Note 7
<b>Total Usable Reserves</b>	<b>(207,487)</b>	<b>(73,200)</b>	<b>(280,687)</b>	

## 24. Unusable Reserves

	31st March 2013 £000	31st March 2014 £000
Revaluation Reserve	(365,195)	(392,158)
Capital Adjustment Account	(1,064,436)	(1,109,549)
Financial Instruments Adjustment Account	(1,863)	(1,947)
Deferred Capital Receipts Reserve	(52)	(103)
Pensions Reserve	434,042	596,792
Collection Fund Adjustment Account	(783)	(1,487)
Accumulated Absences Account	13,979	8,642
ESPO	(1,305)	-
<b>Total Unusable Reserves</b>	<b>(985,613)</b>	<b>(899,810)</b>

### **Revaluation Reserve**

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). The balance is reduced when assets with accumulated gains are:

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

The Reserve contains only revaluation gains accumulated since 1 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.

	2012/13 £000	2013/14 £000
<b>Balance at 1st April</b>	<b>(361,677)</b>	<b>(365,195)</b>
Upward revaluation of assets	(53,699)	(56,058)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	23,007	13,799
<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	<b>(30,692)</b>	<b>(42,259)</b>
Difference between fair value depreciation and historical cost depreciation	3,965	4,067
Accumulated gains on assets sold or scrapped	23,209	11,229
<b>Balance at 31st March</b>	<b>(365,195)</b>	<b>(392,158)</b>

### **Capital Adjustment Account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is credited with sums provided to fund capital expenditure, both current and previous, with sums being transferred from the capital receipts reserve, capital grants and contributions, the Major Repairs Reserve and the

General Fund (either direct funding or provision for repayment of borrowing). The account is debited with the reversal of sums charged to the CIES (to reflect the use of the asset by services) to avoid an impact on the General Fund. These charges include depreciation, impairment and amortisation.

The Account contains revaluation gains accumulated on property, Plant and Equipment before 1 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.

	2012/13 £000	2013/14 £000
<b>Balance at 1st April</b>	<b>(1,075,105)</b>	<b>(1,064,436)</b>
<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>		
Charges for depreciation & impairment	70,393	85,227
Revaluation losses on Property, Plant and Equipment	15,004	7,330
Amortisation of intangible assets	235	332
Revenue expenditure funded from capital under statute	1,203	6,505
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	34,568	3,951
Transfer of Assets Held For Sale	(314)	158
	<b>(954,016)</b>	<b>(960,933)</b>
Adjusting amounts written out of the Revaluation Reserve	(27,174)	(14,764)
<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(981,190)</b>	<b>(975,697)</b>
<b>Capital financing applied in the year:</b>		
Use of the Capital Receipts Reserve to finance new capital expenditure	(2,883)	-
Use of the Major Repairs Reserve to finance new capital expenditure	(6,724)	(7,262)
Capital Grants & Contributions credited to the Income and Expenditure Statement that have been applied to capital financing	(34,169)	(45,395)
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(20,505)	(20,180)
Capital expenditure charged against the General Fund and HRA balances	(18,965)	(61,015)
<b>Balance at 31st March</b>	<b>(1,064,436)</b>	<b>(1,109,549)</b>

### ***Financial Instruments Adjustment Account***

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

The Council uses the account to manage discounts and premia paid on the early redemption of loans. Discounts are credited to the CIES when they are incurred, but

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

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

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

	2012/13 £000	2013/14 £000
<b>Balance at 1st April</b>	<b>(1,757)</b>	<b>(1,863)</b>
Adjustment made between the Financial Instruments Adjustment Account and the Capital Adjustment Account	-	-
Premiums and discount incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	-
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(1,644)	(1,531)
Proportion of discounts incurred in previous financial years to be credited to the General Fund Balance in accordance with statutory requirements	1,538	1,447
<b>Balance at 31st March</b>	<b>(1,863)</b>	<b>(1,947)</b>
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(106)	(84)

### ***Deferred Capital Receipts Reserve***

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. For the Council these amounts relate to mortgage loans made in respect of the purchase of Council Dwellings and to properties leased out under finance leases. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When mortgage and lease payments are made the principal repayment element of these amounts are transferred to the Capital Receipts Reserve.

	2012/13 £000	2013/14 £000
<b>Balance at 1st April</b>	(63)	(52)
Transfer to the Capital Receipts Reserve upon receipt of cash	11	11
Write-off of debt (re-possession)	-	-
Other	-	(62)
<b>Balance at 31st March</b>	<b>(52)</b>	<b>(103)</b>

### ***Pensions Reserve***

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible.

The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Comparative figures for 2012/13 have been restated as set out in Note 2.

	2012/13 Restated £000	2013/14 £000
<b>Balance at 1st April</b>	<b>339,528</b>	<b>434,042</b>
Remeasurement of the Net Defined Benefit Liability	79,876	136,603
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	47,796	61,356
Employer's pensions contributions and direct payments to pensioners payable in the year	(33,158)	(35,209)
<b>Balance at 31st March</b>	<b>434,042</b>	<b>596,792</b>

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

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

	2012/13 £000	2013/14 £000
<b>Balance at 1st April</b>	(416)	(783)
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	(367)	(704)
<b>Balance at 31st March</b>	<b>(783)</b>	<b>(1,487)</b>

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

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

	2012/13 £000	2013/14 £000
<b>Balance at 1st April</b>	<b>14,600</b>	<b>13,979</b>
Settlement or cancellation of accrual made at the end of the preceding year	(14,600)	(13,979)
Amounts accrued at the end of the current year	13,979	8,642
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	(621)	(5,337)
<b>Balance at 31st March</b>	<b>13,979</b>	<b>8,642</b>

### ***ESPO (Eastern Shires Purchasing Organisation)***

ESPO is a joint Committee of Local Authorities and operates within the Local Government (Goods & Services) Act 1970. It acts as a purchasing agent for its member authorities and other customers and provides a procurement and supply service. ESPO is a self-financing organisation, operating on a not-for-profit basis. The reserve holds the Council's estimated share of ESPO's net assets and liabilities.

	2012/13 £000	2013/14 £000
<b>Balance at 1st April</b>	<b>(1,691)</b>	<b>(1,305)</b>
Net Movement in Year	386	1,305
<b>Balance at 31st March</b>	<b>(1,305)</b>	<b>-</b>

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

	2012/13 £000	2013/14 £000
Interest received	394	812
Interest paid	(18,918)	(19,745)

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

	2012/13 £000	2013/14 £000
Depreciation	70,394	85,226
Impairment and downward valuations	15,004	7,330
Amortisation	234	332
Increase / (decrease) in creditors	(2,406)	(7,175)
Increase / (decrease) in debtors	(4,275)	2,276
Increase / (decrease) in inventories	386	470
Movement in pension liability	11,070	26,147
Contributions to/(from) Provisions	1,094	4,496
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	34,253	4,109
Other non-cash items charged to the net surplus or deficit on the provision of services	387	(81)
	<b>126,141</b>	<b>123,130</b>

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

	2012/13 £000	2013/14 £000
Capital Grants credited to surplus or deficit on the provision of services	(45,582)	(138,933)
Net adjustment from the sale of short and long term investments	190	489
Proceeds from the sale of property plant and equipment, investment property	(20,671)	(12,751)
	<b>(66,063)</b>	<b>(151,195)</b>

## 26. Cash Flow Statement – Investing Activities

	2012/13 £000	2013/14 £000
Purchase of property, plant and equipment and intangible assets	(64,133)	(109,391)
Purchase of short-term and long-term investments	(1,613,972)	(376,810)
Other payments for investing activities	(107)	(2,451)
Proceeds from sale of property, plant and equipment and int assets	15,973	18,160
Proceeds from short-term and long-term investments	1,559,472	363,812
Other receipts from investing activities	57,313	115,224
<b>Net Cash Flows from Investing Activities</b>	<b>(45,454)</b>	<b>8,544</b>

## **27. Cash Flow Statement – Financing Activities**

	<b>2012/13 £000</b>	<b>2013/14 £000</b>
Cash receipts of short and long-term borrowing	-	17
Cash payments for the reduction of the outstanding liabilities relating to finance leases and PFI contracts	(3,305)	(2,988)
Repayments of short and long-term borrowing	(15,157)	(1,245)
Other payments for financing activities	2,103	(2,894)
<b>Net Cash Flows from Financing Activities</b>	<b>(16,359)</b>	<b>(7,110)</b>

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

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

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



## Departmental Income and Expenditure

2013/14	Education & Children's Services	Adult Social Care, Health & Housing	City Development & Neighbourhoods	Corporate & Resources Support	Total
	£000	£000	£000	£000	£000
Fees, charges & other service income	(16,969)	(21,444)	(36,780)	(205,161)	<b>(280,354)</b>
Government & non-Gov Grants	(80,022)	(52,673)	(8,084)	(151,963)	<b>(292,742)</b>
<b>Total Income</b>	<b>(96,991)</b>	<b>(74,117)</b>	<b>(44,864)</b>	<b>(357,124)</b>	<b>(573,096)</b>
Employee Expenses	64,106	45,751	54,177	39,975	<b>204,009</b>
Other service expenses	94,681	126,029	96,806	404,284	<b>721,800</b>
Support service recharges	(2,875)	(2,615)	(34,449)	(16,811)	<b>(56,750)</b>
<b>Total Expenditure</b>	<b>155,912</b>	<b>169,165</b>	<b>116,534</b>	<b>427,448</b>	<b>869,059</b>
<b>Net Expenditure</b>	<b>58,921</b>	<b>95,048</b>	<b>71,670</b>	<b>70,324</b>	<b>295,963</b>

2012/13 Comparative Information	Education & Children's Services	Adult Social Care, Health & Housing	City Development & Neighbourhoods	Corporate & Resources Support	Total
	£000	£000	£000	£000	£000
Fees, charges & other service income	(30,223)	(118,535)	(76,109)	(24,760)	<b>(249,627)</b>
Government & non-Gov Grants	(287,293)	(204,471)	(6,915)	(8,311)	<b>(506,990)</b>
<b>Total Income</b>	<b>(317,516)</b>	<b>(323,006)</b>	<b>(83,024)</b>	<b>(33,071)</b>	<b>(756,617)</b>
Employee Expenses	235,973	67,555	55,971	38,151	<b>397,650</b>
Other service expenses	131,647	329,748	99,865	42,740	<b>604,000</b>
Support service recharges	546	7,581	(511)	17,741	<b>25,357</b>
<b>Total Expenditure</b>	<b>368,166</b>	<b>404,884</b>	<b>155,325</b>	<b>98,632</b>	<b>1,027,007</b>
<b>Net Expenditure</b>	<b>50,650</b>	<b>81,878</b>	<b>72,301</b>	<b>65,561</b>	<b>270,390</b>

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

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

	<b>2012/13 £000</b>	<b>2013/14 £000</b>
Net expenditure in the Departmental Analysis	270,390	295,963
Net expenditure of services and support services not included in the analysis	-	-
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	56,066	75,698
	<b>326,456</b>	<b>371,661</b>
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(45,461)	(74,802)
Allocation of Recharges	-	-
<b>Cost of services in Comprehensive Income and Expenditure Statement</b>	<b>280,995</b>	<b>296,859</b>

## Reconciliation to Subjective Analysis

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

2013/14	Departmental Analysis	Amounts not Reported to Management for Decision Making	Amounts not included in the I&E Statement	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(280,354)	(2,780)	-	-	(283,134)	(88,870)	(372,004)
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	(1,477)	(1,477)
Income from Council Tax	-	-	-	-	-	(78,968)	(78,968)
Government grants & contributions	(292,741)	(232,494)	-	-	(525,235)	(313,991)	(839,226)
<b>Total Income</b>	<b>(573,095)</b>	<b>(235,274)</b>	<b>-</b>	<b>-</b>	<b>(808,369)</b>	<b>(483,306)</b>	<b>(1,291,675)</b>
Employee Expenses	204,009	209,654	-	-	413,663	-	413,663
Other Service Expenses	721,800	(61,706)	(39,107)	-	620,987	85,508	706,495
Support Service Recharges	(56,751)	-	-	56,751	-	-	-
Depreciation, Amortisation and Impairments	-	77,692	-	-	77,692	-	77,692
Interest Payments	-	-	-	-	-	19,197	19,197
Precepts and Levies	-	74	-	-	74	-	74
Payments to Housing Capital Receipts Pool	-	1,480	-	-	1,480	-	1,480
Gain or Loss on Disposal of Fixed Assets	-	(8,667)	-	-	(8,667)	-	(8,667)
<b>Total Expenditure</b>	<b>869,058</b>	<b>218,527</b>	<b>(39,107)</b>	<b>56,751</b>	<b>1,105,229</b>	<b>104,705</b>	<b>1,209,934</b>
<b>Net Expenditure</b>	<b>295,963</b>	<b>(16,747)</b>	<b>(39,107)</b>	<b>56,751</b>	<b>296,860</b>	<b>(378,601)</b>	<b>(81,741)</b>

2012/13 Restated	Departmental Analysis	Amounts not Reported to Management for Decision Making	Amounts not included in the I&E Statement	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(249,627)	(1,664)	-	46,117	(205,174)	(18,580)	(223,754)
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	(235)	(235)
Income from Council Tax	-	-	-	-	-	(98,734)	(98,734)
Government grants & contributions	(506,990)	-	-	-	(506,990)	(213,882)	(720,872)
HRA transfer to/from Reserves	-	-	-	-	-	-	-
<b>Total Income</b>	<b>(756,617)</b>	<b>(1,664)</b>	<b>-</b>	<b>46,117</b>	<b>(712,164)</b>	<b>(331,431)</b>	<b>(1,043,595)</b>
Employee Expenses	397,650	(621)	-	-	397,029	-	397,029
Other Service Expenses	604,000	(2,111)	(45,461)	(46,117)	510,311	34,406	544,717
Support Service Recharges	25,357	-	-	-	25,357	-	25,357
Depreciation, Amortisation and Impairments	-	60,462	-	-	60,462	1,455	61,917
Interest Payments	-	-	-	-	-	18,767	18,767
Precepts and Levies	-	-	-	-	-	81	81
Payments to Housing Capital Receipts Pool	-	-	-	-	-	-	-
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	3,933	3,933
HRA transfer to/from Reserves	-	-	-	-	-	-	-
<b>Total Expenditure</b>	<b>1,027,007</b>	<b>57,730</b>	<b>(45,461)</b>	<b>(46,117)</b>	<b>993,159</b>	<b>58,642</b>	<b>1,051,801</b>
<b>Net Expenditure</b>	<b>270,390</b>	<b>56,066</b>	<b>(45,461)</b>	<b>-</b>	<b>280,995</b>	<b>(272,789)</b>	<b>8,206</b>

## 29. Acquired & Discounted Operations

From 1<sup>st</sup> April 2013, responsibility for public health in England transferred from the NHS to local government under the Health & Social Care Act 2012.

The transfer involved 23 staff moving from the NHS to the Council. A new Public Health grant of £19.95m in 2013/14 was also paid to the Council. Outstanding assets and liabilities were transferred from the outgoing NHS bodies to the Council, but these were minimal in value.

Public Health activities are shown on a separate line within the Council's Income & Expenditure account.

There were no discontinued operations in 2013/14.

## 30. Trading Operations

The net surpluses and deficits of the City Council's trading operations are shown in the Comprehensive Income and Expenditure Statement. This note provides a more detailed breakdown of the financial performance of these trading activities. The City Council manages 6 trading operations which provide internal support to front line services.

	2012/13			2013/14		
	Turnover	Expenditure	(Surplus)/ Deficit	Turnover	Expenditure	(Surplus)/ Deficit
	£000	£000	£000	£000	£000	£000
City Catering	(7,814)	7,818	4	(7,713)	7,713	-
City Highways	(7,795)	7,786	(9)	(9,658)	9,587	(71)
City Transport Fleet	(7,194)	6,508	(686)	(7,091)	6,447	(644)
Passenger and Transport	(6,915)	6,798	(117)	(7,540)	7,428	(112)
I.T. Services	(2,023)	1,911	(112)	(1,831)	1,684	(147)
Temporary Staffing Agency*	(133)	158	25	-	-	-
<b>Total</b>	<b>(31,874)</b>	<b>30,979</b>	<b>(895)</b>	<b>(33,833)</b>	<b>32,859</b>	<b>(974)</b>

\* No longer a trading operation

### **City Catering**

The Council owns and manages the City Catering Service, generating income from catering services. Management of the service is provided by an in-house team. The trading objective is to ensure value for money in the delivery of the service objectives.

### **City Highways**

City Highways is a front line service undertaking highway maintenance and construction activities ranging in scope from small repairs to large projects such as the City Centre paving works, and also some work requested by external

organisations. City Highways provides the Council's winter maintenance road gritting service and the Council's land drainage service. In addition the service acts as the Council's initial emergency responder to flooding, drainage and highway incidents and provides an out of hour's emergency standby service in this respect. The trading objective is to achieve a surplus.

### ***City Transport Fleet***

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

### ***Passenger and Transport Services***

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

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

The service procures and commissions IT equipment across the Council. It also provides Technical Education Support and as such trades with schools accordingly. Expenditure in 2013/14 increased due to additional schools spend, particularly at year end, and the subsequent need for additional technical staff. Stock is now controlled through RMS to a range of core ICT products although the increased surplus reflects stock being carried for the LYNC roll-out and PC replacement, both of which are allied to the timetables for the on-going accommodation moves. The trading objective is to provide an income through increased trading with schools and EMPSN savings.

### ***Temporary Staffing Agency***

The TSA existed to provide customers, across the Council, with an efficient solution to their short-term temporary requirements for administrative staff. It ceased trading during 2013/14.

## **31. Agency Services**

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

	2012/13 £000	2013/14 £000
Expenditure incurred in providing payroll services to Samworth Enterprise Academy	3.0	3.0
Amount charged to Samworth Enterprise Academy	(3.0)	(3.0)
<b>Net Surplus</b>	-	-

	2012/13 £000	2013/14 £000
Expenditure incurred in providing payroll services to Harborough District Council	14.4	13.3
Amount charged to Harborough District Council	(14.4)	(13.3)
<b>Net Surplus</b>	-	-

	2012/13 £000	2013/14 £000
Expenditure incurred in providing payroll services to Krishna-Avanti Primary School	3.4	1.4
Amount charged to Krishna-Avanti Primary School	(3.4)	(1.4)
<b>Net Surplus</b>	-	-

	2012/13 £000	2013/14 £000
Expenditure incurred in providing payroll services to Ash Field Academy	4.5	4.7
Amount charged to Ash Field Academy	(4.5)	(4.7)
<b>Net Surplus</b>	-	-

	2012/13 £000	2013/14 £000
Expenditure incurred in providing payroll services to Sacred Heart Catholic Voluntary Academy	3.4	2.3
Amount charged to Sacred Heart Catholic Voluntary Academy	(3.4)	(2.3)
<b>Net Surplus</b>	-	-

	2012/13 £000	2013/14 £000
Expenditure incurred in providing payroll services to St. Joseph's Catholic Voluntary Academy	3.4	3.2
Amount charged to St. Joseph's Catholic Voluntary Academy	(3.4)	(3.2)
<b>Net Surplus</b>	-	-

	2012/13 £000	2013/14 £000
Expenditure incurred in providing payroll services to St. Thomas More Catholic Voluntary Academy	3.4	3.1
Amount charged to St. Thomas More Catholic Voluntary Academy	(3.4)	(3.2)
<b>Net Surplus</b>	-	(0.1)

	2012/13 £000	2013/14 £000
Expenditure incurred in providing payroll services to Humberstone Academy	-	2.1
Amount charged to Humberstone Academy	-	(2.1)
<b>Net Surplus</b>	-	-

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

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

### **33. Pooled Budgets**

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

#### ***Supply of Community Equipment***

This is an arrangement for the supply of community equipment with Leicestershire County Council, Rutland County Council and the three Clinical Commissioning Group's (CCG's) in the areas covered by the councils. Leicester City Council acts as the host partner. The City Council contributed £0.7m (Adult Social Care contribution of £0.6m and Education contribution of £0.1m) to the pool during 2013/14 (£0.5m in 2012/13) and this expenditure is also included in the Adult Social Care line and the Education of the Comprehensive Income and Expenditure Statement.

	2012/13 £000	2013/14 £000
<b>Funding provided to the pooled budget:</b>		
Leicester City Council	547	714
Leicestershire County Council	1,243	1,342
Rutland County Council	94	72
Leicestershire County and Rutland Primary Care Trust	2,545	-
Leicester Primary Care Trust	1,135	-
Leicester City CCG	-	1,340
East Leicestershire and Rutland CCG	-	1,655
West West Leicestershire CCG	-	1,881
<b>Total Funding provided to the pooled budget</b>	<b>5,564</b>	<b>7,004</b>
<b>Expenditure met from the pooled budget:</b>		
Leicester City Council	547	714
Leicestershire County Council	1,243	1,342
Rutland County Council	94	72
Leicestershire County and Rutland Primary Care Trust	2,545	-
Leicester Primary Care Trust	1,135	-
Leicester City CCG	-	1,340
East Leicestershire and Rutland CCG	-	1,655
West West Leicestershire CCG	-	1,881
<b>Total expenditure met from the pooled budget</b>	<b>5,564</b>	<b>7,004</b>
<b>Net surplus arising on the pooled budget during the year</b>	-	-
<b>Leicester City Council's share of the net surplus arising on the pooled budget during the year</b>	-	-



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

This is an arrangement for the implementation of the Governments National Drugs and Alcohol Strategies. As the accountable body, Leicester City Council manages funding from the Department of Health, Home Office, National Offender Management Service, PCT Cluster and Leicestershire/Rutland County Councils and commissions of a range of health and social care interventions for individuals with problematic substance misuse issues. The City Council contributed £6.3m (Adult Social Care contribution of £0.7m and Public Health contribution of £5.6m) to the pool during 2013/14 (£0.3m in 2012/13. Note, in 2012/13 Public Health contribution was part of the PCT) and this expenditure is also included in the Adult Social Care line and the Public Health line of the Comprehensive Income and Expenditure Statement.

	2012/13 £000	2013/14 £000
<b>Funding provided to the pooled budget:</b>		
Leicester City Council	347	656
Leicester City Council - Public Health	-	5,644
Leicestershire County Council - Public Health	-	888
Rutland County Council - Public Health	-	46
Leicestershire Police and Crime Commissioner	-	520
NHS England	-	488
Leicester Primary Care Trust	6,646	-
<b>Total Funding provided to the pooled budget</b>	<b>6,994</b>	<b>8,240</b>
<b>Expenditure met from the pooled budget:</b>		
Leicester City Council	347	656
Leicester City Council - Public Health	-	5,644
Leicestershire County Council - Public Health	-	888
Rutland County Council - Public Health	-	46
Leicestershire Police and Crime Commissioner	-	520
NHS England	-	488
Leicester Primary Care Trust	6,646	-
<b>Total expenditure met from the pooled budget</b>	<b>6,994</b>	<b>8,240</b>
<b>Net surplus arising on the pooled budget during the year</b>	-	-
<b>Leicester City Council's share of the net surplus arising on the pooled budget during the year</b>	-	-

### **34. Members' Allowances**

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

	2012/13 £	2013/14 £
Basic Allowance Payments	540,117	539,536
Special Responsibility Payments	339,335	346,061
General Expense Payments	77,339	78,482
<b>Total</b>	<b>956,791</b>	<b>964,079</b>

### **35. Officers' Remuneration**

This note comprises two sections. The first discloses the remuneration of the Council's senior officers. The second section discloses the total number of 'higher paid' Council officers whose remuneration exceeded £50k during 2013/14, shown in bands and excluding those senior officers in the first section.

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

The table shows the amounts paid to the holders of senior posts in 2013/14 with comparative data from 2012/13 where applicable. Senior officers 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, employers pension contributions, taxable benefits and any compensation for loss of office.

Post	Financial Year	Salary, Fees and Allowances	Expenses	Pension Contributions	Total
		£000	£000	£000	£000
Chief Operating Officer (Head of Paid Service)	2013/14	137,560	18	21,353	<b>158,931</b>
	2012/13	140,234	963	12,621	<b>153,818</b>
Director Delivery, Communications & Political Governance	2013/14	96,304	-	18,009	<b>114,313</b>
	2012/13	102,382	-	17,847	<b>120,229</b>
Director of Finance (appointed 18th June 2012)	2013/14	79,674	-	14,899	<b>94,573</b>
	2012/13	60,314	8	10,857	<b>71,179</b>
City Barrister & Head of Standards (appointed 1st May 2012)	2013/14	80,619	-	15,076	<b>95,695</b>
	2012/13	75,741	-	13,633	<b>89,374</b>
Strategic Director Children (left 2nd June 2013)	2013/14	21,223	-	3,969	<b>25,192</b>
	2012/13	123,231	-	22,182	<b>145,413</b>
Director of Housing	2013/14	85,575	-	16,002	<b>101,577</b>
	2012/13	85,575	-	15,404	<b>100,979</b>
Strategic Director Adult Social Care & Health (became Council employee 1st April 2013)	2013/14	109,789	-	15,360	<b>125,149</b>
	2012/13	-	-	-	-
Strategic Director City Development & Neighbourhoods (appointed 2nd July 2012)	2013/14	114,735	-	21,455	<b>136,190</b>
	2012/13	82,566	-	14,862	<b>97,428</b>
Director Information & Customer Access	2013/14	85,575	-	16,002	<b>101,577</b>
	2012/13	85,575	-	15,404	<b>100,979</b>

#### **Section 2 - Higher Paid Employees**

The Council's other employees receiving more than £50,000 remuneration for the year are shown in the table below. These figures include teaching and other staff within the Council's maintained schools. In addition, five staff who receive higher remuneration joined the Council as part of the transfer of responsibilities for public health to local government from the NHS on 1<sup>st</sup> April 2013.

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

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

There were 14 employees who received remuneration in excess of £50k in 2013/14 as a result of payments relating to loss of office. There were nine such employees in 2012/13.

Excluding compensation for loss of office, the Council had 323 staff paid in these bands in 2013/14. Of these, 38 are included in this table for the first time due to receiving either an incremental pay increase or a 1% pay award during the year.

Remuneration Band £	Number of employees	
	2012/13	2013/14
50,000 – 54,999	114	110
55,000 – 59,999	83	81
60,000 – 64,999	46	63
65,000 – 69,999	32	31
70,000 – 74,999	14	13
75,000 – 79,999	3	6
80,000 – 84,999	7	9
85,000 – 89,999	7	11
90,000 – 94,999	4	2
95,000 – 99,999	4	3
100,000 – 104,999	2	1
105,000 – 109,999	1	5
110,000 – 114,999	1	-
115,000 – 119,999	-	1
120,000 – 124,999	-	1
125,000 – 129,999	-	-
130,000 – 134,999	1	-
<b>Total</b>	<b>319</b>	<b>337</b>

### **36. 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:

	2012/13 £000	2013/14 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	194	194
Fees payable for the certification of grant claims and returns for the year	235	89
Fees payable in respect of other services provided during the year	2	2
<b>Total</b>	<b>431</b>	<b>285</b>

### **37. Dedicated Schools Grant**

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on a council wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

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

2013/14	Capital Expenditure £000	Individual Schools Budget £000	Total £000
<b>Final DSG for 2013/14 before Academy recoupment</b>			<b>256,909</b>
Academy figure recouped for 2013/14			(7,322)
<b>Total DSG after Academy recoupment for 2013/14</b>			<b>249,587</b>
Brought forward from 2012/13			6,608
Carry forward to 2014/15 agreed in advance			-
<b>Agreed initial budgeted distribution in 2013/14</b>	<b>52,405</b>	<b>203,790</b>	<b>256,195</b>
In year adjustments			-
<b>Final budgeted distribution for 2013/14</b>	<b>52,405</b>	<b>203,790</b>	<b>256,195</b>
Actual central expenditure for the year	(37,820)	-	(37,820)
Actual ISB deployed to schools	-	(203,790)	(203,790)
Local Authority contribution for 2013/14			-
<b>Carry forward to 2014/15</b>	<b>14,585</b>	<b>-</b>	<b>14,585</b>

<b>2012/13 Comparative Information</b>	<b>Capital Expenditure £000</b>	<b>Individual Schools Budget £000</b>	<b>Total £000</b>
<b>Final DSG for 2012/13 before Academy recoupment</b> Academy figure recouped for 2012/13			<b>247,639</b> (6,762)
<b>Total DSG after Academy recoupment for 2012/13</b> Brought forward from 2011/12 Carry forward to 2013/14 agreed in advance			<b>240,877</b> 4,992 -
<b>Agreed initial budgeted distribution in 2012/13</b> In year adjustments	<b>39,117</b> (4,896)	<b>206,752</b> 4,896	<b>245,869</b> -
<b>Final budgeted distribution for 2012/13</b> Actual central expenditure for the year Actual ISB deployed to schools Local Authority contribution for 2012/13	<b>34,221</b> (27,613) - -	<b>211,648</b> - (211,648) -	<b>245,869</b> (27,613) (211,648) -
<b>Carry forward to 2013/14</b>	<b>6,608</b>	-	<b>6,608</b>

### **38. Grant Income**

The Council received the following revenue and capital grants in 2013/14. These are analysed between those credited to the Comprehensive Income and Expenditure Statement and those held as receipts in advance, in line with the Council's accounting policies.

#### **Capital Grants**

	<b>2012/13 £000</b>	<b>2013/14 £000</b>
<b>Credited to Taxation &amp; Non-Specific Grant Income</b>		
Building Schools for the Future	17,089	35,548
Community Capacity Grant	-	1,674
DFT Maintenance Grant	2,139	2,599
DFT Bus Pinch Point	-	2,400
DFT Integrated Transport Grant	3,532	3,957
DFT Better Bus and other contributions to RTI	-	784
European Regional Development Fund	1,108	2,469
Heritage Lottery Fund	-	98
Football Foundation Grant & Other Partner Contributions	790	-
DFE Capital Maintenance	694	11,812
DFE Basic Need	3,361	27,305
DFE Two Year Old Entitlement	-	794
DFT Local Sustainable Transport Fund	452	651
Working Neighbourhood Fund	-	167
Sustrans Grant	-	550
Aiming High for Disabled Children Grant	249	-
Arts Council	334	114
DEFRA	43	71
HCA	294	-
Growing Places	423	7,450
S106 Contributions	-	89
Leicestershire County Council	-	150
PCT Capital Contribution	-	600
DCLG Household Waste	-	118
Others	3,662	4,135
<b>Total Credited to Taxation &amp; Non-Specific Grant Income</b>	<b>34,170</b>	<b>103,535</b>

	2012/13 £000	2013/14 £000
<b>Credited to Services (All REFCUS related)</b>		
Disabled Facilities Grant	1,067	848
PCT Disabled Facilities Grant Contribution	-	500
DFT Integrated Transport Grant	23	-
DFT Local Sustainable Transport Fund	8	-
DFT Cleaner Bus Technology	-	530
Growing Places	423	4,094
Regional Growth Fund	-	1,296
DFE Capital Maintenance	783	-
Devolved Formula Capital	2,970	1,056
Building Schools for the Future	6,927	27,191
HCA Empty Homes Leasing	-	98
Repayable Home Repair Grants	-	311
Aiming High for Disabled Children Grant	16	-
Others	42	77
<b>Total Credited to Services</b>	<b>12,259</b>	<b>36,001</b>

### Revenue Grants

	2012/13 £000	2013/14 £000
<b>Credited to Taxation &amp; Non-Specific Grant Income</b>		
Revenue Support Grant	3,417	135,495
<b>Total Credited to Taxation &amp; Non-Specific Grant Income</b>	<b>3,417</b>	<b>135,495</b>
<b>Credited to Services</b>		
<b><u>Children's and Education Services</u></b>		
Early Intervention	19,440	-
Pupil Premium	9,665	15,271
Dedicated Schools Grant (see note 37)	239,280	244,800
Other Education	18,908	26,492
<b><u>Adults and Housing</u></b>		
Learning Disability & Health Reform Grant	10,347	-
Drug Intervention Programme	1,687	1,053
Adult Pooled Treatment	3,243	2,681
Housing Benefit Subsidies	167,992	131,992
Dementia-friendly Environment Improvements	-	642
Right to Control Grant	-	542
Other Adults and Housing	21,202	21,005
<b><u>Public Health</u></b>		
Public Health Grant	-	19,995
<b><u>City Development and Neighbourhoods</u></b>		
Future Jobs Fund	85	-
Waste PFI	2,148	2,088
Other City Development and Neighbourhoods	4,682	2,861
<b><u>Corporate and Resources</u></b>		
Local Services Support Grant	1,207	171
Housing Benefit & Council Tax benefit Admin Grant	3,428	3,421
New Homes Bonus Scheme	2,982	4,618
Other Corporate and Resources	694	286
<b>Total Credited to Services</b>	<b>506,990</b>	<b>477,918</b>

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

### ***Capital Receipts in Advance***

	<b>2013/14 £000</b>
<b>Capital Grants Receipts in Advance</b>	
Homes and Communities Agency	28
DFE Targetted Basic Need	1,020
Devolved Formula Capital	4,077
DFT Cleaner Bus Monies	54
DFT Severe Weather Capital Maintenance Allocation	92
DCLG Household Waste	901
Building Schools for the Future	11,229
DFT Local Sustainable Transport Fund	332
Others	147
<b>Total Received in Advance</b>	<b>17,880</b>

### ***Revenue Receipts in Advance***

	<b>2012/13 £000</b>	<b>2013/14 £000</b>
<b>Receipts in Advance</b>		
<b><u>Children's and Education Services</u></b>		
Early Intervention Grant	2,687	2,915
Dedicated Schools Grant (see note 37)	6,608	-
Other Education	3,141	5,428
<b><u>Adults and Housing</u></b>		
Social Care Reform	1,070	826
Adult Pooled Treatment	197	-
Other Adults and Housing	856	915
<b><u>City Development and Neighbourhoods</u></b>		
Urban Congestion Grant	302	-
Environmental Crime	144	-
Smarticketing	451	-
Other City Development and Neighbourhoods	2,264	766
<b><u>Corporate and Resources</u></b>		
Corporate and Resources	10	-
<b>Total Receipts in Advance</b>	<b>17,730</b>	<b>10,850</b>

### **39. 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 Section 1 below allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

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

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

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

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides substantial funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills, housing benefits). Grant funding received from central government is shown within Note 38 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 34. Remuneration of senior officers is detailed in Note 35.

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

Members and officers are also required to disclose any other arrangements giving rise to related party interests. A close family member of Cllr Vi Dempster is a substantial shareholder in MK Fabrications, a metal fabrication business which rents commercial premises from the Council. Transactions totalled £7,260 in 2013/14, which was a market rental value for the property.

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

##### ***Leicester Theatre Trust***

The Leicester Theatre Trust owns and operates the Curve theatre in Leicester. The Council appoints two out of fourteen board members, currently Cllr Piara Singh Clair and Liz Blyth, the Council's Director of Culture and Neighbourhoods. The Council provided grant funding and payments for services for the Trust totalling £711k in 2013/14.



### ***Leicester Arts Centre Ltd***

This is the not-for-profit holding company for the Phoenix Arts Centre in Leicester. The Council appoints two out of ten members of the board, currently Cllr Bill Shelton and Frank Jordan, the Council's Strategic Director of City Development & Neighbourhoods. The Council provided grant funding and payment for services totalling £331k in 2013/14.

### ***Leicester Council of Faiths***

Cllr Manjula Sood is the Chair of the Leicester Council of Faiths. This umbrella community organisation receives funding from the Council totalling £25k per annum.

## **Section 2 - Organisations in which the Council has an interest**

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

### ***Homecome Ltd***

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

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

### ***Leicester BSF Holding Company 1 and Leicester BSF Holding Company 2***

In financial year 2007/08, the Council entered into a partnership agreement with the Miller Consortium. This is a contractual framework to establish a Local Education Partnership under the Building Schools for the Future programme. The programme is resulting in over £300m of investment to transform secondary education in the City.

The partnership involved the Council taking a stake in two companies which form the vehicles for delivering the programme. The Council owned 1% of BSF1 and 10% of BSF2.

During 2013/14 the Council opted to dispose of its interests in these companies for a total consideration of £1.26m – this represented a gain of £771k on the investments' book value of £489k. The Council retains certain residual interests in the company structure that supported the programme, but this stake is immaterial.

### ***Eastern Shires Purchasing Organisation***

The City Council is a member of the Eastern Shires Purchasing Organisation (ESPO). This is a Joint Committee involved in the letting of contracts for supplies and services to its members (other local authorities) and others; together with the provision of a central warehouse for the supply of items in common use.

The Council previously recognised net assets of £1.3m in relation to ESPO, offset by amounts in an unusable reserve. In 2013/14 the Council took the decision to remove its interest in ESPO from the Balance Sheet in line with correct accounting practice. The Council has given notice of its resignation from membership of ESPO in 2014/15.

### ***Connexions Leicester Shire Service Ltd & Connexions Leicester Shire Trading Ltd***

These two companies provided the Connexions advice service for young people prior to the service being brought back in-house by the city and county councils in 2012/13.

Neither company had any live contracts at 31<sup>st</sup> March 2014. Both companies are to be put into members' voluntary liquidation in 2014/15 with any remaining assets distributed between the City and County Councils. Connexions Leicester Shire Service Ltd made a distribution of resources to the two Councils in 2013/14 in anticipation of this liquidation, totalling £390k

### ***King Richard III Trust***

The Council appoints two directors to the board of this trust, which will administer the King Richard III Visitor Centre. At 31<sup>st</sup> March 2014, the trust was in existence but had not commenced any significant operations.

The directors are Frank Jordan, the Strategic Director of City Development & Neighbourhoods and Liz Blyth, Director of Culture and Neighbourhoods Services.

## **40. 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. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Finance Requirement (CFR), a measure of the capital expenditure incurred historically by the Council yet to be financed. The CFR is analysed in the second part of this note.

	2012/13 £000	2013/14 £000
<b>Opening Capital Financing Requirement</b>	<b>534,558</b>	<b>533,573</b>
<b>Capital Investment</b>		
Property, Plant and Equipment	80,246	162,798
Intangible Assets	674	807
Long Term Investment	-	(2,290)
Revenue Expenditure Funded Under Capital Statute	13,462	42,506
<b>Sources of Finance</b>		
Capital Receipts	(2,883)	-
Government Grants & Other Contributions	(53,153)	(81,396)
Sums set aside from revenue:	(18,827)	(49,443)
Direct Revenue Contributions	-	(18,481)
(MRP/Loans Fund Principal)	(20,504)	(20,179)
Repayment of PWLB Loans for HRA	-	-
Correction for HRA Premia	-	-
<b>Closing Capital Financing Requirement</b>	<b>533,573</b>	<b>567,895</b>
Increase/Decrease in underlying need to borrowing (unsupported by government financial assistance)	(15,946)	(10,276)
HRA CFR adjustment	-	-
Assets acquired under Finance Leases	640	-
Assets acquired under PFI/PPP contracts	14,321	44,598
<b>Increase/(Decrease) in CFR</b>	<b>(985)</b>	<b>34,322</b>

## 41. 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 2013 £000	31st March 2014 £000
Other Land and Buildings	1,722	1,629
Vehicles, Plant and Equipment	853	635
<b>Total</b>	<b>2,575</b>	<b>2,264</b>

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

	31st March 2013 £000	31st March 2014 £000
Finance lease liabilities	1,346	1,057
Finance costs payable in future years	686	548
<b>Total minimum lease payments</b>	<b>2,032</b>	<b>1,605</b>

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31st March 2013 £000	31st March 2014 £000	31st March 2013 £000	31st March 2014 £000
Within one year	428	356	290	244
Within 2 to 5 years	988	809	620	498
Later than 5 years	627	439	437	314
<b>Total</b>	<b>2,043</b>	<b>1,604</b>	<b>1,347</b>	<b>1,056</b>

#### *Operating Leases*

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

	Vehicles £000	Buildings £000	Total £000
Not later than one year	-	1,076	1,076
Later than one year and not later than 5 years	-	2,809	2,809
Later than 5 years	-	4,147	4,147
<b>Total</b>	-	<b>8,032</b>	<b>8,032</b>

## **Council as Lessor**

### *Finance Leases*

The Council has leased out property at 40-50 High Street and land at Barkby Road on finance leases. These leases are on peppercorn annual payments and so no income has been included in the accounts. There are no contingent rents in these leases. The Council has also leased out two other properties on a finance lease where a rental is payable.

	<b>31st March 2014</b>
	<b>£000</b>
<b>Finance lease debtor</b>	
Current	1
Non-current	64
<b>Unearned Finance Income</b>	306
<b>Gross Investment in the lease</b>	<b>372</b>

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

<b>Minimum Lease Payments</b>	<b>31st March 2014</b>
	<b>£000</b>
Within one year	1
Within 2 to 5 years	12
Later than 5 years	358
	<b>372</b>

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

### *Operating Leases*

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

	<b>31st March 2013</b>	<b>31st March 2014</b>
	<b>£000</b>	<b>£000</b>
Not later than one year	4,126	3,780
Later than one year and not later than 5 years	11,329	10,311
Later than 5 years	68,407	68,272
<b>Total</b>	<b>83,862</b>	<b>82,363</b>

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

## **42. 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.

2013/14 was the eleventh year of the operation of the contract, costing £13.287m (£13.007m in 2012/13).

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

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

	<b>Other Land &amp; Buildings £000</b>	<b>Vehicles, Plant &amp; Equipment £000</b>	<b>Total £000</b>
Balance at 1st April 2013	13,433	5,839	19,272
Depreciation	(709)	(1,157)	(1,866)
Additions	-	-	-
<b>Balance at 31st March 2014</b>	<b>12,724</b>	<b>4,682</b>	<b>17,406</b>

### ***Payments***

The Council makes an agreed payment each year which is increased by inflation (based on the RPI-X measure) and can be reduced if the contractor fails to meet performance standards. Payments remaining to be made under the PFI contract at 31 March 2014 (excluding future inflation) are as follows:

	<b>Payment for Services £000</b>	<b>Reimbursement of Capital Expenditure £000</b>	<b>Interest £000</b>	<b>Total £000</b>
Within 1 year	6,502	1,949	934	9,385
Within 2 to 5 years	26,098	7,895	3,489	37,482
Within 6 to 10 years	33,057	10,108	3,131	46,296
Within 11 to 15 years	27,507	8,067	1,421	36,995
Within 16 to 20 years	-	-	-	-
<b>Total</b>	<b>93,164</b>	<b>28,019</b>	<b>8,975</b>	<b>130,158</b>

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

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

	2012/13 £000	2013/14 £000
Balance outstanding at 1st April	12,627	14,744
Payments during the year	(2,006)	(1,963)
Additions	4,123	-
<b>Balance at 31st March</b>	<b>14,744</b>	<b>12,781</b>

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

In December 2007, the Council entered into a 25-year contract with Leicester Miller Education Company Limited under a PFI scheme. The contractor was to design, build, finance and operate, on the existing sites, replacement buildings for two community colleges – Judgemeadow and Soar Valley – valued at £34.9m (on completion of the rebuild in 2009). The Council own 10% of the shares in the company with the remaining 90% in private hands. At the end of the contract, all assets will revert to Council control. The rebuild was completed in 2009, and 2013/14 was therefore the fifth year of the operation of the contract costing £6.35m.

#### *Property Plant and Equipment*

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

	Vehicles, Plant & Equipment £000
Balance at 1st April 2013	31,477
Depreciation	(642)
<b>Balance at 31st March 2014</b>	<b>30,835</b>

#### *Payments*

The Council makes an agreed payment each year which is increased by inflation (based on the RPI-X measure) and can be reduced if the contractor fails to meet performance standards. Payments remaining to be made under the PFI contract at 31 March 2014 are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Within 1 year	1,709	1,021	2,936	5,666
Within 2 to 5 years	8,183	3,704	10,781	22,668
Within 6 to 10 years	11,326	5,279	11,730	28,335
Within 11 to 15 years	11,322	8,263	8,749	28,334
Within 16 to 20 years	10,171	13,769	4,395	28,335
Within 21 to 25 years	264	666	15	945
<b>Total</b>	<b>42,975</b>	<b>32,702</b>	<b>38,606</b>	<b>114,283</b>

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

	2012/13 £000	2013/14 £000
Balance outstanding at 1st April	34,224	33,227
Payments during the year	(997)	(525)
<b>Balance at 31st March</b>	<b>33,227</b>	<b>32,702</b>

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

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

#### *Property Plant and Equipment*

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

	Vehicles, Plant & Equipment £000
<b>Balance at 31st March 2014</b>	<b>44,598</b>

#### *Payments*

The Council makes an agreed payment each year which is increased by inflation (based on the RPI-X measure) and can be reduced if the contractor fails to meet performance standards. Payments remaining to be made under the PFI contract at 31 March 2014 are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Lifecycle Capital Replacement Costs £000	Total £000
Within 1 year	1,969	1,179	3,033	46	6,227
Within 2 to 5 years	7,876	5,071	11,296	665	24,908
Within 6 to 10 years	9,844	6,617	12,077	2,596	31,134
Within 11 to 15 years	9,844	7,422	9,818	4,050	31,134
Within 16 to 20 years	9,844	10,547	6,809	3,935	31,135
Within 21 to 25 years	9,026	13,333	2,593	3,594	28,546
<b>Total</b>	<b>48,403</b>	<b>44,169</b>	<b>45,626</b>	<b>14,886</b>	<b>153,084</b>



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

	<b>2013/14 £000</b>
Commencing Values	44,598
Payments during the year	(427)
<b>Balance at 31st March</b>	<b>44,171</b>

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

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

The scheme involves the replacement of existing heating boilers, the use of existing heating networks and the construction of additional heating networks in the City Centre and some outer Council estates. Leicester University are part of the scheme and their heating and electricity networks are linked into the overall network scheme. It is envisaged that other public and private sector organisations will buy into the scheme and become part of a dynamic network.

The scheme came on stream during 2012/13 although one phase (Aikman Avenue) has yet to be completed.

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

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

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

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

The assets used to provide the service and directly attributable to the City Council are recognised on the Council's Balance Sheet. The value of fixed assets attributable to the Council and operational as at 31<sup>st</sup> March 2014, are shown below:

	<b>Vehicles, Plant &amp; Equipment £000</b>
<b>Balance at 31st March 2014</b>	<b>9,773</b>

### ***Payments***

The Council will make payments each year which will be increased by inflation (based on a number of inflation measures) and can be reduced if the contractor fails

to meet performance standards. Payments (substantially based on assumed levels of energy consumption) scheduled to be made under the contract at 31<sup>st</sup> March 2014 (excluding future inflation increases but including the final phase due to become operational during 2014/15) are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Lifecycle Capital Replacement Costs £000	Total £000
Within 1 year	1,735	55	958	215	2,963
Within 2 to 5 years	6,941	608	3,834	860	12,243
Within 6 to 10 years	8,676	1,165	4,388	1,076	15,305
Within 11 to 15 years	8,676	1,866	3,687	1,076	15,305
Within 16 to 20 years	8,676	2,989	2,564	1,076	15,305
Within 21 to 25 years	5,925	3,254	772	724	10,675
Within 26 - 30 years	98	30	1	0	129
<b>Total</b>	<b>40,727</b>	<b>9,967</b>	<b>16,204</b>	<b>5,027</b>	<b>71,925</b>

### *Liability*

The liability outstanding to the contractor for capital expenditure incurred up to 31<sup>st</sup> March 2014 is as per the following table:

	2013/14 £000
Liability for capital expenditure incurred for operational phases	9,438
Payments during the year	(22)
<b>Balance at 31st March</b>	<b>9,416</b>

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

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

### **43. Impairment Losses**

There were no material impairments of assets during the year.

### **44. Capitalisation of Borrowing Costs**

The Council has not capitalised any of its borrowing costs during 2013/14.

#### **45. Termination Benefits**

The Council terminated the contracts of a number of employees in 2013/14 incurring liabilities of £3,827k (£3,938k in 2012/13). Of this £2,752k (£2,751k in 2012/13) was for redundancy and other departure costs, and £1,074k (£1,183k in 2012/13) was the cost arising from the early release of pension benefits as required by the regulations of the Local Government Pension Scheme (LGPS).

The number of exit packages with total cost per band and total cost of the exit packages are set out in the table below. Details of officer remuneration can be found in Note 35. In 2013/14 the Council approved 115 compulsory redundancies. Payments arising from these in 2013/14 are included in the figures below:

	<b>Total number of exit packages by cost band 2012/13 revised</b>	<b>Total cost of exit packages 2012/13 revised £</b>	<b>Total number of exit packages by cost band 2013/14</b>	<b>Total cost of exit packages 2013/14 £</b>
0 - 20,000	194	1,635,600	271	1,806,281
20,001 - 40,000	47	1,333,395	38	1,003,936
40,001 - 60,000	10	490,063	8	381,392
60,001 - 80,000	4	271,006	7	453,663
80,001 - 100,000	1	83,785	2	181,588
100,001 - 150,000	1	124,127	-	-
<b>Total</b>	<b>257</b>	<b>3,937,976</b>	<b>326</b>	<b>3,826,860</b>

#### **46. Pensions Schemes Accounted For as Defined Contribution Schemes**

##### ***Teachers' Pensions***

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

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

##### ***Public Health***

Public Health employees who were compulsorily transferred from the PCT's to the Council who had access to the NHS Pension Scheme on 31<sup>st</sup> March 2013 retained access to that scheme on transfer at 1<sup>st</sup> April 2013. The scheme provides these staff with specified benefits upon their retirement and the Council contributes towards the

costs by making contributions based on a percentage of members' pensionable salaries.

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

In 2013/14, the Council paid £0.1m to the NHS Pension Scheme in respect of former NHS Staff retirement benefits representing 14% of pensionable pay.

#### **47. Defined Benefit Pension Schemes**

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

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

The Council participates in three post-employment pension schemes:

- Teachers' Pensions Scheme –see Note 46 for further information
- NHS Pension Scheme –see Note 46 for further information
- The Local Government Pension Scheme, (LGPS) administered locally by the Leicestershire County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liability with investment assets.

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

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

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

	2012/13 Restated £000	2013/14 £000
<b>Comprehensive Income &amp; Expenditure Statement</b>		
<b>Cost of Services</b>		
Current service cost	31,660	41,165
Past service cost	1,953	809
Settlements and curtailments	(2,063)	(278)
<b>Total Service Cost</b>	<b>31,550</b>	<b>41,696</b>
<b>Financing and Investment Income and Expenditure</b>		
Expected return on scheme assets	(32,618)	(35,542)
Interest cost	48,864	55,203
<b>Net Interest Cost</b>	<b>16,246</b>	<b>19,661</b>
<b>Total Post-employment Benefit charged to the Surplus or Deficit on the Provision of Services</b>	<b>47,796</b>	<b>61,357</b>
<b>Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement</b>		
Return on plan assets excluding amounts included in net interest	(64,400)	5,619
Actuarial losses arising from changes in demographic assumptions	-	30,038
Actuarial losses arising from changes in financial assumptions	143,047	37,472
Other Experience adjustments	585	63,474
Effect of business combinations & disposals	644	-
<b>Total remeasurements recognised in other comprehensive income and expenditure statement</b>	<b>79,876</b>	<b>136,603</b>
<b>Total post-employment Benefit charged to the Comprehensive Income and Expenditure statement</b>	<b>127,672</b>	<b>197,960</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits	14,638	26,147
<b>Actual amount charged against the General Fund Balance for Employer's contributions payable to the scheme</b>	<b>(33,158)</b>	<b>(35,209)</b>

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

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

	2012/13 £000	2013/14 £000
<b>Balance at 1st April</b>	<b>1,012,589</b>	<b>1,218,801</b>
Current service cost	31,660	41,165
Past service costs (including curtailments)	1,953	809
Effect of settlements	(4,164)	(657)
Interest cost	48,864	55,203
Contributions by scheme participants	10,633	10,910
Benefits paid	(30,299)	(34,239)
Remeasurements arising from changes in assumptions	143,632	130,984
Effect of business combinations and disposals	3,933	-
<b>Balance at 31st March</b>	<b>1,218,801</b>	<b>1,422,976</b>

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

	2012/13 £000	2013/14 £000
<b>Balance at 1st April</b>	<b>673,061</b>	<b>784,759</b>
Interest income	32,618	35,542
Effect of settlements	(2,101)	(378)
Contributions by scheme participants	10,633	10,910
Employer contributions	33,158	35,209
Benefits paid	(30,299)	(34,239)
Effect of business combinations and disposals	3,289	-
Return on plan assets excluding amounts included in net interest	64,400	(5,619)
<b>Balance at 31st March</b>	<b>784,759</b>	<b>826,184</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

### ***Scheme History***

	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
Present value of funded obligations	(1,157,032)	(848,312)	(962,314)	(1,165,624)	(1,369,228)
Present value of unfunded obligations	(56,095)	(47,765)	(50,275)	(53,177)	(53,748)
Fair value of assets in the scheme	651,088	654,805	673,061	784,759	826,184
<b>Surplus/(deficit) in the scheme</b>	<b>(562,039)</b>	<b>(241,272)</b>	<b>(339,528)</b>	<b>(434,042)</b>	<b>(596,792)</b>

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

### ***Impact on future cash flows***

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £1,423.0m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £596.8m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (ie before payments fall due), as assessed by the scheme actuary. Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to March 31<sup>st</sup> 2015 is £33.9m.

The maturity profile is as follows:

	<b>Liability Split</b>	<b>Weighted Average Duration</b>
Active members	54.4%	23.7
Deferred members	16.7%	22.9
Pensioner members	28.9%	11.7
<b>Total</b>	<b>100.0%</b>	<b>19.5</b>

### ***Basis for Estimating Assets and Liabilities***

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, based on the latest full valuation of the scheme as at March 31<sup>st</sup> 2013.

The principal assumptions used by the actuary have been:

<b>Local Government Pension Scheme</b>	<b>2012/13</b>	<b>2013/14</b>
<b>Mortality assumptions:</b>		
Longevity at 65 for current pensioners:		
Men	20.9	22.2
Women	23.3	24.3
Longevity at 65 for future pensioners:		
Men	23.3	24.2
Women	25.6	26.6
Rate of increase in salaries	5.1%	4.6%
Rate of increase in pensions	2.8%	2.8%
Rate for discounting scheme liabilities	4.5%	4.3%
Take-up of option to convert annual pension into retirement lump-sum – relating to service pre April 2008	50.0%	50.0%
Take-up of option to convert annual pension into retirement lump-sum – relating to service post April 2008	75.0%	75.0%

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

A breakdown is shown below:

	2012/13		2013/14	
	Bid Values £000	Percentage of Total Assets	Bid Values £000	Percentage of Total Assets
<b>Equity</b>				
Consumer	-	0%	-	0%
Manufacturing	-	0%	-	0%
Energy and Utilities	-	0%	-	0%
Financial Institutions	-	0%	-	0%
Health and Care	-	0%	-	0%
Information Technology	-	0%	-	0%
Other	28,831	4%	30,353	4%
<b>Debt Securities</b>				
UK Government	9,710	1%	10,223	1%
Other	56,104	7%	59,065	7%
<b>Private Equity</b>				
All	30,795	4%	32,421	4%
<b>Real Estate</b>				
UK Property	73,363	9%	77,235	9%
<b>Investment Fund and Unit Trusts</b>				
Equities	395,662	51%	416,548	51%
Bonds	51,640	7%	54,366	7%
Hedge Funds	26,810	3%	28,225	3%
Commodities	35,545	5%	37,421	5%
Infrastructure	17,806	2%	18,745	2%
Other	40,687	5%	42,835	5%
<b>Cash and Cash Equivalents</b>				
All	17,807	2%	18,747	2%
<b>Total</b>	<b>784,760</b>	<b>100%</b>	<b>826,184</b>	<b>100%</b>

#### **48. Contingent Liabilities**

##### **Future Business Rates Appeals**

The Council has a contingent liability in respect of future successful business rates appeals pertaining to 2013/14 and previous years.

Where appeals have been lodged at the Balance Sheet date, appropriate provision against loss to the Council is made in line with accounting practice. However, there is also the possibility that appeals in respect of material change of circumstances, reconstitutions and deletions that have taken place before the Balance Sheet date have not yet been lodged.

It is not possible to reliably estimate if or when these will be lodged, whether they will be successful, and the amount of business rates liability that will be reduced. The contingent liability relates to the fact that the authority will be obliged to refund businesses in respect of successful appeals (in some cases backdated to 2010) as a result of the rateable value assessments made in 2013/14 and previous years.



### **MIRA Business Park**

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

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

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

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

### **49. Contingent Assets**

The Council is party to legal action against Her Majesty's Revenue & Customs in respect of a claim for compound interest on refunds of over-declared VAT. A test case involving Littlewoods is presently being contested in the courts and the result of this case could result in a materially significant gain for the Council.

### **50. 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 other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

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 a central treasury team, under policies approved by the Council in the Council's Treasury Policy Statement.

#### ***Credit Risk***

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

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

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

- For term deposits and callable deposits for periods of 1 year or less, a long-term rating of A+, a short term rating of F1.
- For term deposits and callable deposits for periods of 3 months or less, a long-term rating of A, a short term rating of F1.
- For term deposits and callable deposits for periods of 1 month or less, a long-term rating of A-, a short term rating of F1.

In addition there is a requirement that there shall be a good prospect of support from a strong government (the government having an AA+ long-term rating) or well-resourced parent institution (minimum A+ credit rating).

No credit rating is required for investments issued by or subject to an explicit guarantee from the UK government or in other local authorities.

The maximum sum to be deposited with other local Councils is £20m although there is no limit in respect of investments with the UK Government. All other deposits are limited to a maximum of £6m.

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

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

The Council's maximum exposure to credit risk in relation to its investments in commercial institutions (banks and building societies) of £24m (as at 31<sup>st</sup> March 2014) cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non-recovery applies to all of the Council's deposits, but there was no evidence at 31 March 2014 or subsequently that this was likely to crystallise.

The Council's exposure to credit risk in relation to its investments in other local authorities is £141.0m as at 31 March 2014, and in relation to investments in the UK Government £18.1M. Such investments are assessed to be risk free.

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

The value of receivables classified as financial instruments on the Balance Sheet as at 31<sup>st</sup> March 2014 was £19.7m (£23.1m 31/03/2013). The following matrix is used for both 2012/13 and 2013/14 to estimate the non-collectible proportion of these receivables.

<b>Age of Receivable</b>	<b>Estimated Non-Collection Rate</b>
Less than one year	0%
One month to three months	10%
Three months to six months	25%
Six months to nine months	50%
Nine months to one year	75%
One year to two years	80%
Over two year	100%

On this basis it is estimated that the uncollectable amount on commercial and personal debts outstanding at 31/03/2014 will be £8.1m (£7.7m 31/03/2013) and that the impaired value of these debts are £11.6m (£15.3m 31/03/2013).

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

	<b>31st March 2013</b>		<b>31st March 2014</b>	
	<b>Due £000</b>	<b>Impaired Value £000</b>	<b>Due £000</b>	<b>Impaired Value £000</b>
Less than three months	14,058	13,710	9,929	9,765
Three to six months	1,001	751	1,643	756
Six months to one year	1,229	522	1,007	613
More than one year	6,778	356	7,292	445
<b>Total Assets less Liabilities</b>	<b>23,066</b>	<b>15,339</b>	<b>19,871</b>	<b>11,579</b>

### **Liquidity Risk**

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets upper and lower limits on the proportion of its fixed rate borrowing maturing during specified periods, expressed as a percentage of all such loans.

*Upper limits:*

	%
Under 12 months	30
12 months and within 24 months	40
24 months and within 5 years	60
5 years and within 10 years	60
10 years and within 25 years	100
25 years and within 50 years	100
Above 50 years	20

*Lower limits:*

	%
Less than 5 years	0
Over 5 years	60

The maturity analysis of loans (nominal value) is shown in the table below.

	31st March 2013 £m	31st March 2014 £m
Less than one year	-	-
Between one and five years	-	-
Between five and ten years	8.6	8.6
Between ten and fifteen years	-	-
Between fifteen and twenty years	-	-
More than 20 years	230.8	230.8

The maturity analysis of all significant financial liabilities and other long-term liabilities is shown in the table below and this includes all principal repayments due under loans, PFI schemes, finance leases and debt managed on behalf of Leicester City Council by Leicestershire County Council.

	31st March 2013 £m	31st March 2014 £m
Less than one year	2.6	4.2
Between one and five years	15.7	19.5
Between five and ten years	24.3	30.6
Between ten and fifteen years	15.7	23.4
Between fifteen and twenty years	18.2	44.9
More than 20 years	252.8	248.1

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

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

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit or the Provision of Services or Other 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 and affect the General Fund Balance.

The Council's policy had a number of strategies for managing interest rate risk as at the balance sheet date.

- Its policy was that the nominal amount of fixed interest rate loans should not exceed £270m and that the nominal amount of variable rate loans (net of short term and variable rate investment) should not exceed £60m.
- Where economic circumstances make it favourable, fixed rate loans will be repaid early to reduce the interest paid, and may be replaced with new loans on more advantageous terms.
- The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget forecasts during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

This part of the note illustrates the interest rate risk on the basis of the financial asset and liabilities of the Council as at 31<sup>st</sup> March 2014. If interest rates had been 1% higher with all other variables held constant, the significant impacts over the course of a 12 month period are estimated to be as follows:

- The interest received on variable, short dated investments and interest paying cash equivalents would increase by £1.8m with a similar impact on the Surplus or Deficit on the Provision of Services.
- The fair value of fixed rate borrowing liabilities would have decreased by £31m but with no impact on the Surplus or Deficit on the Provision of Services.

### **Price Risk**

The Council holds equity shares in companies linked to its service objectives. These are not held for sale and accordingly no estimate is made of the price risk of these holdings.

The Council does not hold any tradable financial instruments.

## **Foreign Exchange Risk**

The Council has no significant financial assets or liabilities denominated in foreign currencies in which it has a beneficial interest and thus has no significant exposure to loss arising from movements in exchange rates.

## **51. Heritage Assets**

Three year summary of transactions:

	<b>2011/12 £000</b>	<b>2012/13 £000</b>	<b>2013/14 £000</b>
<b>Cost or valuation at 1st April</b>			
Buildings	2,006	2,591	2,591
Civic Silver etc.	950	1,111	1,471
Museum Exhibits	46,544	46,586	70,781
Statues & Monuments	1	1	1
<b>Total cost or valuation</b>	<b>49,501</b>	<b>50,289</b>	<b>74,844</b>
<b>Additions</b>			
Buildings	-	-	-
Civic Silver etc.	-	-	-
Museum Exhibits	37	-	21
Statues & Monuments	-	-	-
<b>Total additions</b>	<b>37</b>	<b>-</b>	<b>21</b>
<b>Net Revaluation Increases/(Decreases)</b>			
Buildings	585	-	66
Civic Silver etc.	161	360	-
Museum Exhibits	5	24,195	-
Statues & Monuments	-	-	5,875
<b>Total revaluation Increases/(Decreases)</b>	<b>751</b>	<b>24,555</b>	<b>5,941</b>
<b>De-recognition (Disposals)</b>			
Buildings	-	-	-
Civic Silver etc.	-	-	-
Museum Exhibits	-	-	-
Statues & Monuments	-	-	-
<b>Total disposals</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Book Value at 31st March</b>	<b>50,289</b>	<b>74,844</b>	<b>80,806</b>

## **Heritage Buildings**

A number of Buildings previously included as Community Assets were reclassified as Heritage Assets as part of the 2011/12 Statement Of Accounts; the land and buildings relating to these assets are included as part of the 5 year revaluation cycle employed by the Council, however, none of these assets are charged depreciation as per our stated accounting policy on Heritage Assets (included in Note 1) in accordance with FRS 30. As at 31<sup>st</sup> March 2014; these buildings had a net book value of £2.657m as agreed by the Council's valuer.

## ***Civic Silver***

The civic silver and other mayoral regalia was previously classified as a Community Asset. It was re-valued during 2012/13 and as at the 31<sup>st</sup> March 2014 had a net book value of £1.471m.

## ***Museum Exhibits***

There are five museums operated by Leicester City Council each with unique characteristics and exhibits that highlight various aspects of the City's history and culture whilst engaging with visitors from all over the world.

Museum Exhibits are included at insurance value which is tendered for insurance purposes every 3 years. These were also re-valued during 2012/13 and as at 31<sup>st</sup> March 2014 are held in the Balance Sheet at £70.805m.

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

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

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

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

The Council has a clear Collections Development Policy which sets out areas for addition to the collections and which recognises the Council's responsibility to only acquire items relevant to the museums and their existing collections. The Council does not currently have a budget for purchasing items to add to its collections and relies on funding from the City of Leicester Museums Trust and other charitable bodies such as The Art Fund. Object donations from the public are another key way

in which the collections are expanded, but such gifts will only be accepted if they meet the Council's collecting criteria.

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

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

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

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

A large number of these Assets were not previously included on the Council's Balance Sheet but have now all been accounted for. A number were valued during 2012/13 and are included at their insurance value. The rest are included at a nominal value as per our stated accounting policy on Heritage Assets (included within Note 1). As a result a total value of £5.874m is held on the Balance Sheet at 31<sup>st</sup> March 2014.

### **52. Authorisation of Accounts**

**NOTE 52 NOT RELEVANT FOR DRAFT VERSION**



## HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE ACCOUNT

2012/13 (Restated) £000		Note	2013/14 £000
	<b>Income</b>		
74,980	Dwelling Rents	5	76,542
1,152	Non-dwelling Rents	6	1,309
4,796	Service Charges	6	4,962
269	HRA Subsidy	10	-
79	Contributions from General Fund		80
-	Exceptional item: Capital Grants & Contributions	17	-
<b>81,276</b>	<b>Total Income</b>		<b>82,893</b>
	<b>Expenditure</b>		
12,079	General Management		11,758
5,657	Special Management	3	5,740
29,826	Repairs & Maintenance		27,776
408	Rent, Rates, Taxes & Other Charges		748
-	Negative HRA Subsidy	10	-
423	Contribution to Bad Debt Provision	4	671
23,603	Depreciation & Impairment of Fixed Assets	13	8,526
60	Debt Management Expenses		60
<b>72,056</b>	<b>Total Expenditure</b>		<b>55,279</b>
<b>(9,220)</b>	<b>"Net Cost of HRA Services" as included in the whole authority Comprehensive Income &amp; Expenditure Statement</b>		<b>(27,614)</b>
-	HRA share of Corporate & Democratic Core	16	-
-	HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services	16	-
<b>(9,220)</b>	<b>"Net Cost of HRA Services"</b>		<b>(27,614)</b>
-	Exceptional item: Capital Grants & Contributions	17	-
(3,048)	(Gain) or Loss on Sale of HRA Assets		(3,409)
9,895	Loan Charges - Interest		9,637
-	Exceptional item: Interest Payable & Similar Charges	17	-
(64)	Investment Interest		(68)
4,207	Pensions - Interest on Liabilities	15	5,161
(3,171)	Pensions - Expected Return on Assets	15	(3,323)
<b>(1,401)</b>	<b>(Surplus) / Deficit for the Year</b>		<b>(19,616)</b>

## STATEMENT ON MOVEMENT OF HRA BALANCE

£000		Note	2013/14 £000
(1,401)	<b>(Surplus) / Deficit for the Year (from above)</b>		<b>(19,616)</b>
	<b>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</b>		
-	Exceptional item: transfers to Capital Receipts Reserve	17	-
934	Amounts charged to the HRA for amortisation of Premia and Discounts for the year determined in accordance with statute		903
(1,103)	HRA share of contributions to/(from) the Pension Reserve	15	(2,609)
3,112	Gain of (Loss) on Sale of HRA Fixed Assets		3,409
(16,879)	Impairment of Fixed Assets	13	(306)
12,151	Capital Expenditure Financed from Revenue Account	11	11,417
-	HRA Set-Aside (MRP)		-
-	Exceptional item: transfers (from) Capital Receipts Reserve	17	-
-	Transfers to/(from) the Major Repairs Reserve	14	-
22	Transfers to/(from) the Employee Benefits Reserve		75
<b>(1,763)</b>	<b>Net Movement on the Housing Revenue Account in Year</b>		<b>12,889</b>
(4,580)	<b>Balance Brought Forward</b>		(7,744)
<b>(7,744)</b>	<b>Balance Carried Forward - 31st March</b>		<b>(14,471)</b>

## Notes to the Housing Revenue Account

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### **1. Housing Revenue Account**

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

### **2. Changes to Accounting Practice (and 2011/12 comparative figures)**

There has been no change in accounting practice

### **3. Special Services**

These include group central heating and hot water schemes, caretaking services, security services to high rise flats, maintenance of shrubberies and grassed areas and communal services.

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

#### ***Rents and Service Charges***

The bad debt provision for rents and service charges at 31<sup>st</sup> March 2013 was £1.375m (£1.048m in 2012/13). This is calculated on a rent and service charge arrears balance of £2.312m (£1.846m in 2012/13).

### **5. Net Rent Income from Dwellings**

	2012/13 £000	2013/14 £000
Total Rent income from Dwellings	74,980	76,542
Less Housing Benefit	(50,007)	(47,341)
<b>Total</b>	<b>24,973</b>	<b>29,201</b>

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

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

## 7. Housing Stock

The Council was responsible for managing a stock of 21,956 dwellings at 31<sup>st</sup> March 2014, of which 13,704 were houses or bungalows and 8,252 were flats. During the year the following movements took place:

	2012/13	2013/14
Construction of new dwellings	-	-
Right to Buy sales	(148)	(174)
Sales to H.A.s/Losses on Conversions/Other	1	(9)
<b>Net Increase/(Decrease)</b>	<b>(147)</b>	<b>(183)</b>

## 8. Value of HRA Assets

	31st March 2013 £000	31st March 2014 £000
<b><u>Operational</u></b>		
Dwellings	599,730	608,352
Other Land & Buildings	14,953	24,543
	<b>614,683</b>	<b>632,895</b>
<b><u>Non-operational</u></b>		
Other Land & Buildings	101	1,628
<b>Total</b>	<b>614,784</b>	<b>634,523</b>

## 9. Vacant Possession Value of Council Dwellings

The vacant possession value of council dwellings at 31<sup>st</sup> March 2014 was £1,789m. At the same date the balance sheet value of council dwellings was £608m. The difference of £1,181m 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 2013 £000	31st March 2014 £000
Vacant possession values	1,763,912	1,789,272

## 10. HRA Subsidy

2012/13 was the first year of 'self-financing' for the HRA, under which there is no HRA subsidy. In 2012/13 HRA, there was a small adjustment to the 2011/12 subsidy.

	2012/13 £000	2013/14 £000
Management Allowance	-	-
Maintenance Allowance	-	-
Capital Charges	-	-
Interest on Receipts	-	-
Guideline Rent Income	-	-
Prior year adjustments	269	-
Major Repairs Allowance (MRA)	-	-
<b>Total HRA Subsidy</b>	<b>269</b>	<b>-</b>

## 11. Capital Expenditure

HRA capital expenditure on land, houses and other property in 2013/14 totalled £21.786m, financed as follows:

	2012/13 £000	2013/14 £000
Major Repairs Reserve	6,724	7,262
Use of borrowing	-	3,306
Government grants	-	-
Other grants and contributions	-	-
Usable capital receipts	-	-
Financing from revenue account	12,151	11,218
<b>Total</b>	<b>18,875</b>	<b>21,786</b>

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

## 12. Capital Disposals

HRA capital disposals in 2013/14 were as follows:

	2012/13	2013/14		
	Total Receipt £000	Usable/ Retained £000	Pooled/ Set aside £000	Total Receipt £000
Right to Buy (RTB) sales	5,859	3,227	3,568	6,795
Non-RTB sales	1,431	380	-	380
Mortgages	2	-	-	-
<b>Total</b>	<b>7,292</b>	<b>3,607</b>	<b>3,568</b>	<b>7,175</b>

## 13. Depreciation & Impairment of Fixed Assets

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

	2012/13			2013/14		
	Depreciation 2012/13	Impairment 2012/13	Total 2012/13	Depreciation 2013/14	Impairment 2013/14	Total 2013/14
<b><u>Operational</u></b>						
Dwellings	6,540	16,690	23,230	6,645	(298)	6,347
Other Land & Buildings	184	188	372	617	(8)	609
	<b>6,724</b>	<b>16,878</b>	<b>23,602</b>	<b>7,262</b>	<b>(306)</b>	<b>6,956</b>
<b><u>Non-operational</u></b>						
Other Land & Buildings	-	1	1	-	-	-
<b>Total</b>	<b>6,724</b>	<b>16,879</b>	<b>23,603</b>	<b>7,262</b>	<b>(306)</b>	<b>6,956</b>

To be consistent with the format of the dwellings valuation supplied by the authority's external valuers, the dwellings depreciation charge has been calculated by dividing the buildings element of the valuation (on an 'Existing Use Value – Social Housing' basis) by the residual life of the properties.

## 14. Use of the Major Repairs Reserve

	2012/13 £000	2013/14 £000
<b>Balance at 1st April</b>	<b>(1,200)</b>	<b>(1,200)</b>
Depreciation credited	(6,724)	(7,262)
Transfer to HRA	-	-
Capital expenditure on land, houses and other property	6,724	7,262
<b>Balance at 31st March</b>	<b>(1,200)</b>	<b>(1,200)</b>

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

## **15. 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 46 to the core financial statements.

	<b>2012/13 £000</b>	<b>2013/14 £000</b>
<b><u>Pension costs incurred in Net Cost of Services</u></b>		
Current service cost	(67)	(771)
Past service cost	-	-
	<b>(67)</b>	<b>(771)</b>
<b><u>Pension interest cost and expected return on assets</u></b>		
Interest on liabilities	(4,207)	(5,161)
Expected return on assets	3,171	3,325
	<b>(1,036)</b>	<b>(1,836)</b>
<b>Total Transfer to Pension Reserve</b>	<b>(1,103)</b>	<b>(2,607)</b>

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

In accordance with established practice, the Authority has not made a specific charge to the HRA for 'Corporate and Democratic Core' or other 'Non-allocated Costs', although such charges are implicitly included in other support service charges that are made to the HRA. Financial activity between HRA and General Fund was reviewed during 2011/12 and did not result in a change to this practice.





## COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

2012/13 £000		Note	2013/14		
			Council Tax £000	Business Rates £000	Total £000
	<b>Income</b>				
87,627	Council Tax Collectable	2	97,928		97,928
	Transfers from General Fund:				
30,620	Council Tax Benefits		-		-
99,483	Income from Business Ratepayers			100,309	100,309
<b>217,730</b>	<b>Total Income</b>				<b>198,237</b>
	<b>Expenditure</b>				
	Precepts and Demands:	3			
97,889	Leicester City Council		77,690		77,690
13,867	Leicester Police Authority		10,792		10,792
4,257	Leicester Fire Authority		3,623		3,623
					92,105
	Business Rates:	4			
96,979	Payments to National Pool			-	-
-	Payments to Government			46,915	46,915
-	Payments to Fire			938	938
-	Payments to Leicester City Council			45,976	45,976
492	Costs of Collection			489	489
					94,318
568	Contributions in respect of previous year's surplus	5	680		680
	Bad and Doubtful Debts:	6			
2,986	Write-offs		1,229	1,021	2,250
252	Increase / (Reduction) to provision		1,360	681	2,041
-	Provision for appeals			7,251	7,251
					11,542
<b>217,290</b>	<b>Total Expenditure</b>				<b>198,645</b>
(440)	Fund (Surplus) / Deficit for the Year		(2,554)	2,962	408
(488)	Fund (Surplus) / Deficit brought forward		(928)	-	(928)
<b>(928)</b>	<b>Fund Balance as at 31st March</b>	<b>7</b>	<b>(3,482)</b>	<b>2,962</b>	<b>(520)</b>

## Notes to the Collection Fund

### Income And Expenditure Account

#### 1. General

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

#### 2. Council Tax

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

Band	Estimated No. of Taxable Properties After Effect of Discount	Ratio	Band D Equivalent Dwellings	Less Band D Equivalent LCTR Scheme Dwellings	Net Band D Equivalent Dwellings
-A	169	5/9	94	-	94
A	63,365	6/9	42,243	13,786	28,457
B	21,391	7/9	16,637	2,663	13,974
C	12,905	8/9	11,471	1,396	10,075
D	5,479	1	5,479	398	5,081
E	2,773	11/9	3,389	151	3,238
F	1,319	13/9	1,905	56	1,849
G	546	15/9	910	9	901
H	28	18/9	56	-	56
	<b>107,975</b>		<b>82,184</b>	<b>18,459</b>	<b>63,725</b>
Plus adjustments for changes to empty property discounts and exemptions					1,533
Provision					(3,188)
<b>Council Tax Base</b>					<b>62,070</b>

The collectable Council Tax for 2013/14 was £124.256m (including sums paid under the Local Council Tax Reduction Scheme). After taking into account the total amount of this reduction (£25.886m), the average number of Band D dwellings equates to 66,292. This is an increase from the 62,070 dwellings existing when the 2013/14 budget was prepared due to the net effect of the following:

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

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

The following sums were paid from the collection fund:

	<b>2012/13 £000</b>	<b>2013/14 £000</b>
Leicestershire Police Authority	13,867	10,792
Leicester City Council	97,889	77,690
Leicestershire Fire Authority	4,257	3,623
<b>Total</b>	<b>116,013</b>	<b>92,105</b>

### **4. Income from Business Rates – 2013/14**

Under the national arrangements for business rates, the Council collects rates payable in the city, which are based on local rateable values multiplied by a uniform rate. With the introduction of the rates retention scheme from April 2013, the total amount less certain reliefs and other deductions is shared between Central Government (50%), Leicestershire & Rutland Combined Fire Authority (1%) and the Council (49%).

The total non-domestic rateable value at 31 March 2014 was £263,464,847 (£261,081,682 at 31<sup>st</sup> March 2013). The national non-domestic rating multiplier for the year was 47.1p (46.2p), ((45.8p (45.0p) in 2012/13)), with the small business non-domestic rating multiplier for the respective years shown in brackets.

### **5. Contributions to Collection Fund Surpluses and Deficits**

#### ***Share of Surpluses***

##### *Council Tax*

Every January, the Authority has to estimate the surplus for the collection fund at the end of the financial year. This has to be notified to the police and the fire authority, which are entitled to receive a share of any surplus made in respect of Council Tax. This is detailed in the table below.

	<b>City £000</b>	<b>Police £000</b>	<b>Fire £000</b>	<b>Total £000</b>
<b>Estimate Jan 2013</b>	574	81	25	<b>680</b>

## **6. Bad and Doubtful Debts**

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

	Bad Debt Provision			Bad Debt Write-offs in year £000
	Balance at 1st April 2013 £000	Increase/ (Decrease) £000	Balance at 31st March 2014 £000	
Council Tax	4,113	1,360	5,473	1,229
NNDR	2,163	681	2,844	1,021
<b>Total</b>	<b>6,276</b>	<b>2,041</b>	<b>8,317</b>	<b>2,250</b>

## **7. Collection Fund Surpluses/Deficits**

The Collection Fund account shows a cumulative surplus of £519,772 at 31 March 2014 (£927,726 at 31<sup>st</sup> March 2013).

The surplus arising on the Council Tax during the financial year 2013/14 will be distributed between Leicester City Council, the Police & Crime Commissioner for Leicestershire and the Leicester, Leicestershire & Rutland Combined Fire Authority in proportion to the respective precepts and demands.

The deficit arising on the Business Rates during the financial year 2013/14 will be shared between Leicester City Council (49%), Central Government (50%) and the Leicester, Leicestershire & Rutland Combined Fire Authority (1%).

# **LEICESTER CITY COUNCIL ANNUAL GOVERNANCE STATEMENT 2013/14**

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The AGS will be included in the final audited statement of accounts.



# Glossary

This Glossary explains terms that may be encountered in discussion of Local Government finance. Definitions are intended to assist a general audience, rather than reflecting exactly the technical sense in which the terms are used.

## **Accountable Body**

An accountable body is an organisation which takes financial responsibility for the management of funds which comprise of contributions from multiple organisations; the fund itself is not a legal entity.

## **Accounting Policies**

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in the financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves. Accounting policies do not include estimation techniques.

## **Accruals**

The concept that items of income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

## **Actuarial Basis**

The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation.

## **Amortisation**

The reduction in an amount carried on the Balance Sheet by the regular debiting or crediting to an Income and Expenditure Account.

## **Appropriation**

The process of transferring balances from revenue to reserves and vice versa.

## **Assets**

Right or other access to future economic benefits.

## **Assets Held for Sale**

These are assets which are very likely to be sold within 12 months of the balance sheet date. They are therefore classified as Current Assets.

## **Audit of Financial Statements**

An audit is an examination by an independent expert of the authority's financial affairs to check that the relevant legal obligations and codes of practice have been followed.

## **Balance Sheet**

The Balance Sheet shows the assets and liabilities of the Authority.

## **Bonds**

Investment in certificates of debts issued by a Government or company. These certificates represent loans which are repayable at a future date with interest.

## **Budget**

The financial plan reflecting the Council's policies and priorities over a period of time.

## **Capital Expenditure**

Expenditure on the purchase, construction or enhancement of major items which have a lasting value to the authority.

## **Capital Financing**

The raising of money to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, direct revenue financing, usable

capital receipts, capital grants, capital contributions and revenue reserves.

### **Capital Financing Requirement**

Reflects the authority's level of debt relating to capital expenditure.

### **Capital Programme**

The capital schemes the Authority intends to carry out over a specified time period.

### **Capital Receipts**

Money the Council receives from selling assets (buildings, land etc.). Capital receipts from the sale of housing assets cannot be used entirely to fund new capital expenditure; a proportion must be paid to government.

### **Central Support Services**

The provision of services which include finance, human resources, legal, information technology and property.

### **CIPFA (Chartered Institute of Public Finance and Accountancy)**

The principal accountancy body dealing with local government finance.

### **Code of Practice on Local Authority Accounting (The Code)**

A publication produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) that provides comprehensive guidance on the content of a Council's Statement of Accounts.

### **Collection Fund**

A separate fund recording the expenditure and income relating to Council Tax and NNDR.

### **Community Assets**

Assets that the Council intends to hold in perpetuity, that have no determinable useful lives and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

### **Community schools**

Schools which the Council run, employ the staff and normally owns and maintains the land and buildings (with the exception of PFI schools).

### **Comprehensive Income and Expenditure Statement**

This Statement reports the net cost of all services and functions for which the authority is responsible for.

### **Constitution**

The document that sets out how the Council operates, how decisions are made and the procedures which are followed.

### **Contingent Liabilities**

Liabilities which may or may not occur in the future. They often depend on future events for which the outcome cannot be predicted. Due to their uncertainty they do not appear in the balance sheet.

### **Council**

The Council comprises the City Mayor and all elected Councillors who represent the various electoral divisions.

### **Council Tax**

This is a tax, which is levied on the broad capital value of domestic properties, and charged to the resident or owner of the property.

### **Council Tax Base**

This is a figure that expresses the total band D equivalent properties. The amount to be funded by Council Tax is divided by this, and charges for all other bands of property are based on this charge.

### **Council Tax Precept**

The amount of income due to Leicestershire Police Authority and Leicester, Leicestershire and Rutland Combined Fire Authority from the Council, who are responsible for billing Council Tax.



### **Creditors**

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

### **Debits and Credits**

A debit represents expenditure against an account and a credit represents income to an account.

### **Debt Charges**

This represents the interest payable on outstanding debt.

### **Debtors**

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

### **Dedicated Schools Grant**

A ring-fenced grant from the government that has to be used to fund the delegated budget of each school, together with certain items of related central expenditure.

### **Deficit**

Arises when expenditure exceeds income or when expenditure exceeds available budget.

### **Depreciation**

The term used to describe the charge made for the cost of using tangible fixed assets. The charge for the year will represent the amount of economic benefits consumed (i.e. wear and tear).

### **Direct Revenue Financing**

The cost of capital projects that is charged against revenue budgets.

### **Equities**

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings.

### **Executive**

The City Mayor, Deputy City Mayor and Assistant City Mayors provide the executive function of the Council. The Council's Constitution sets out what matters are reserved to Council and its committees rather than the Executive.

### **Finance Lease**

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

### **Finance Procedure Rules**

These provide the framework within which the Council conducts its financial affairs. Finance Procedure Rules are supplemented by Codes of Practice giving detailed guidance for financial practice in the Council.

### **Financial Instruments**

Financial instruments are formally defined in the Code as contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### **Financial Reporting Standards (FRSs)**

Statements prepared by the Financial Reporting Council. Many of the Financial Reporting Standards (FRSs) and the earlier Statements of Standard Accounting Practice (SSAPs) apply to local authorities and any departure from these must be disclosed in the published accounts.

### **Foundation schools**

Schools run by their own governing body, which employs the staff and sets the admissions criteria. Land and buildings are usually owned by the governing body or a charitable foundation.

### **General Fund**

The Council's main revenue account, covering the net cost of all services other than Council housing.

### **Going Concern**

The going concern accounting concept assumes that the organisation will not significantly curtail the scale of its operation in the foreseeable future.

### **Government Grants**

Payment by Government towards the cost of local authority services. These are either for particular purposes or services (specific grants) or in aid of local services generally (formula grant).

### **Housing Benefits**

A system of financial assistance to individuals towards certain housing costs administered by local authorities and subsidised by central government.

### **Housing Revenue Account (HRA)**

A separate account to the General Fund which includes the expenditure and income arising with the provision of housing accommodation by the Council. The HRA is ring-fenced: no cross subsidy is allowed between the HRA and the General Fund in either direction.

### **Impairment Loss**

A material reduction in the value of fixed assets outside the normal periodic revaluations.

### **Inflow**

This represents cash coming into the Council.

### **Internal Audit**

An independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation.

### **International Financial Reporting Standards (IFRSs)**

These are guidelines for the production of financial statements. Many of these now apply to local authorities and departure

from these must be disclosed in the published accounts.

### **International Financial Reporting Interpretations Committee (IFRIC)**

Aims to provide guidance on newly identified financial reporting issues not specifically dealt with in IFRSs.

### **Inventories**

Comprises; goods or other assets purchased for resale; consumable stores; raw materials and components purchased for incorporation into products for sale; products and services in intermediate stages of completion, long term contract balances and finished goods.

### **Investments**

An asset which is purchased with a view to making money by providing income, capital appreciation or both.

### **Joint Venture**

An organisation for which the Council has partial control and ownership, but decisions require the consent of all participants.

### **Leasing**

A method of financing the acquisition of assets, notably equipment, vehicles and plant. This is normally for an agreed period of time, up to several years.

### **Levy**

A charge made by an outside organisation, which has to be met from within the Council's overall budget.

### **Liabilities**

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

### **Liquid Resources**

These are resources that the Council can easily access and use, e.g. cash or investments of less than 1 year.

### **LOBO Loans**

Lender Option, Borrower Option loans. This is a loan in which the lender can, at a predetermined time, request to change the interest rate at which the loan is being charged. If the borrower does not agree to the rate change, the borrower then has the option to repay the loan.

### **Long Term Borrowing**

Loans raised to finance capital spending which have to be repaid over a period in excess of one year from the date of the accounts.

### **Materiality**

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

### **Minimum Revenue Provision (MRP)**

A minimum amount, set by law, which the Council must charge to the income and expenditure account, for debt redemption or for the discharge of other credit liabilities (e.g. finance lease).

### **Movement In Reserves Statement**

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

### **National Challenge Co-operative Trust Schools**

These schools are formed under the previous Government's National Challenge initiative to improve academic achievement. When Trust status is attained all assets normally transfer to the Trust body.

### **National Non-Domestic Rate (NNDR)**

Represents the rate of taxation on business properties. Central Government have the responsibility for setting the rate

and Local Authorities are responsible for the billing and collection of the tax.

### **Net Book Value**

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

### **Net Expenditure / Net Cost of Service**

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

### **Non-Current Assets**

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

### **Operating Lease**

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

### **Operational Assets**

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

### **Outflow**

This represents cash going out of the Council.

### **Precept**

An amount charged by another authority to the Council's Collection Fund. There are two preceptors on Leicester's collection fund: the Police and Fire Authorities.

### **Prior Period Adjustments**

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

### **Private Finance Initiative**

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

### **PFI Credits**

The financial support provided to Local Authorities to part fund PFI capital projects.

### **Provision**

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

### **Prudential Borrowing**

This gives local authority's freedom to borrow within prudent, affordable and sustainable limits.

### **Prudential Indicator**

Linked to "Prudential Borrowing" above these are calculations that indicate if borrowing is within prudent, affordable and sustainable limits.

### **Public Works Loan Board (PWLB)**

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

### **Remuneration**

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

### **Revaluation Reserve**

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

### **Reserves**

Sums are set aside in reserves for future purposes rather than to fund past events. Earmarked reserves are those established for a specific purpose.

### **Revenue Expenditure**

Represents day-to-day running expenses, e.g. salaries, fuel etc.

### **Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

This is expenditure that is classified as capital although it does not result in the creation of a fixed asset belonging to the Council.

### **Revenue Support Grant**

A non-ring-fenced government grant which can be used by the authority to finance revenue expenditure on any service.

### **Royal Institute of Chartered Surveyors (RICS)**

A professional body for land, property, construction and environmental related issues.

### **Service Reporting Code of Practice**

SeRCOP (BVACOP) establishes 'proper practice' for consistent financial reporting, which allows direct comparisons to be made with financial information published by other local authorities.

### **Specific Grants**

Grants paid to the Council for a specific purpose, including housing benefit, housing improvement, etc.

### **Subsidiary**

An organisation that is under the control of the Council or the Council is the majority share holder.

### **Surplus**

Arises when income exceeds expenditure or when expenditure is less than available budget.

### **Trading Services**

These are services operated by the Council which largely trade with other departments of the Council, and with external clients.

### **Trading Accounts**

A service run in a commercial style and environment, providing services that are mainly funded from fees and charges levied on customers.

### **Usable Capital Receipts Reserve**

Represents the resources held by the Council that have arisen from the sale of non-current assets that are yet to be spent on other capital projects.

### **Voluntary-aided schools**

Schools which are mainly religious or 'faith' schools, the governing body, employs the staff, and sets the admission criteria. Buildings and land are normally owned by a charitable foundation.

### **Voluntary-controlled schools**

Schools which the Council run, employ staff, set admission criteria, and maintain land & buildings. But normally are owned by a charity, who appoints members to the governing body



Audit and Risk Committee

30 July 2014

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## Review of the Effectiveness of the System of Internal Audit 2013-14

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### Report of the Director of Finance

#### 1. Purpose of Report

- 1.1. This report presents the findings of the annual review of the effectiveness of the Council's system of internal audit for 2013-14.

#### 2. Recommendations

- 2.1. The Committee is recommended to:
- a) Accept the findings of this review, and
  - b) Conclude that the Council has an effective system of internal audit upon which it (the Council) can place reliance.

#### 3. Summary

- 3.1. Leicester City Council's Finance Division includes the Internal Audit team which carries out reviews of financial and management systems and seeks to provide assurance to management on the effectiveness of their management controls. Recommendations are made to improve systems and procedures, as appropriate, with the aim being to reduce the Council's exposure to unacceptable levels of risk.
- 3.2. As such, Internal Audit is an integral part of the Council's overall system of internal control, which is the means by which the Council ensures resources are used effectively and for their intended purposes.
- 3.3. Another fundamental component of the Council's system of internal audit is the Audit and Risk Committee. The Committee has an essential role to play in providing independent assurance on the effectiveness of the Council's system of internal control as a contribution to the Council's governance arrangements as reported in the Annual Governance Statement. The process for this was outlined in a report on the Council's Assurance Framework and the Annual Review of the Committee's Terms of Reference, the latest annual review of which was approved by the Committee at its meeting on 15 April 2014.

- 3.4. The Accounts and Audit Regulations 2011 requires that the Council:
- *'shall undertake an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control'*, and,
  - *'...must, at least once in each year, conduct a review of the effectiveness of its internal audit.'*
- 3.5. This review is part of a wider annual review of the system of internal control, also required by the Regulations, following which a report is to be submitted to your Committee and the outcome included in the Council's Annual Governance Statement. The purpose is to give the Council assurance that reliance can be placed upon the overall system of internal audit including the work of both the Internal Audit team and the Audit and Risk Committee.

#### **4. Report**

- 4.1. In 2009, the Chartered Institute of Public Finance and Accountancy CIPFA issued their 'Guidance Note on the Review of the Effectiveness of the System of Internal Audit', defining this system as:
- 'The framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation.'*
- 4.2. In practice, this comprises:
- The organisation's risk management strategy and policy
  - The process of coverage of key controls and key assurance providers, both internal and external
  - The adequacy and effectiveness of remedial action taken where defects in control have been identified
  - The operation of the Audit and Risk Committee and the Internal Audit team in accordance with current codes and standards.
- 4.3. This review of the system of Internal Audit uses the above definition. The results of the review are set out below in Appendix 1.
- 4.4. In my opinion, the Council has an effective system of internal audit, though there is always room for improvement. The key conclusions from the review are:
- The Council's Risk Management Policy and Strategy have been reviewed, updated and approved by the Strategic Management Board and the Executive and was noted by the Audit and Risk Committee. Work continues to ensure that both strategic and operational risk registers are complete and topical as part of the Strategy. As part of the 2014 Strategy, work continues to ensure that risk management becomes truly embedded within the council at all levels. The progress of this work is reported to each meeting of this Committee in the Risk Management and Insurance Services update.



- The Internal Audit team has maintained actions taken to implement recommendations made by the Audit Commission in their last independent review of the service, and Internal Audit work continues to be relied on by the External Auditors (currently KPMG) in relevant aspects of their work. Currently, the Internal Audit manager is carrying out a self-assessment of the service against the Public Sector Internal Audit Standards, the result of which will be reported to this committee at its meeting on 29 September 2014.
  - The Internal Audit Plan reflects a risk-based approach consistent with the requirements of the 'Public Sector Internal Audit Standards'.
  - Customer satisfaction returns continue to indicate an acceptable level of satisfaction with the audit team for individual pieces of work, though there continues to be a low level of response.
  - The team is endeavouring to improve both productivity and the time management of individual audit assignments further. They take an active part in CIPFA audit benchmarking as well as regional practitioner meetings with a view to keeping abreast of best practice.
  - The team remains adequately resourced, especially in view of the budget pressures facing the whole of the City Council. The team continues to provide the various technical disciplines within internal audit, such as the audit of IT as well as the more traditional emphasis on financial control and probity.
- 4.5. The Council's approach to counter-fraud work continues, for the time being, through the provision of a dedicated Corporate Counter Fraud team, although this function is not part of Internal Audit and reports separately to the Head of Revenue and Benefits, who is currently reviewing the management of fraud at the Council. As well as investigating a number of high-profile matters during the year, the team has delivered fraud awareness training to managers and staff during the year. An annual update on the activity of the fraud team's work is brought to this Committee.
- 4.6. The Audit and Risk Committee meets all of the indicators of being an effective audit committee as set out by CIPFA in their 2005 publication *'Audit Committees: Practical Guidance for Local Authorities'* and as subsequently amended. The Director of Finance attends these meetings and the Committee's annual report to the Council (21 November 2013) concluded that:
- '...the Audit and Risk Committee made a significant contribution to the good governance of the City Council. Through its work, it has reinforced the Council's systems of internal control and internal audit and has given valuable support to the arrangements for corporate governance, legal compliance and the management of risk.'*
- 4.7. Therefore, it is concluded that the City Council has an effective system of internal audit.

## 5. **FINANCIAL, LEGAL AND OTHER IMPLICATIONS**

### 5.1. **Financial Implications**

The audit system is a key component of the Council's financial management and corporate governance systems. (*Colin Sharpe, Head of Finance*).

### 5.2. **Legal Implications**

The conduct of a review of the Council's internal audit process is a statutory requirement under the Accounts and Audit Regulations 2011. (*Kamal Adatia, City Barrister and Head of Standards*).

### 5.3. **Climate Change Implications**

This report does not contain any significant climate change implications and therefore should not have a detrimental effect on the Council's climate change targets. (*Duncan Bell, Senior Environmental Consultant*).

## 6. **Other Implications**

<b>Other implications</b>	<b>Yes/No</b>	<b>Paragraph referred</b>
Equal Opportunities	No	-
Policy	No	-
Sustainable and Environmental	No	-
Crime and Disorder	Yes	4.5 and Appendix 1 section 11
Human Rights Act	No	-
Elderly/People on low incomes	No	-
Corporate Parenting	No	-
Health Inequalities	No	-
Risk Management	Yes	The whole report concerns the internal audit process, a main purpose of which is to give assurance to Directors and this Committee that risks are being properly identified and managed appropriately by the business.

**7. Consultations**

- 7.1. Tony Edeson, Head of Internal Audit and Risk Management  
Caroline Jackson, Head of Revenue and Benefits  
Steve Jones, Internal Audit Manager

**8. Background Papers – Local Government Act 1972**

- 8.1. Files held in Internal Audit.

**9. Report Author/Officer to Contact**

Alison Greenhill, Director of Finance – 454 (37) 4001

## **Objectives of Review**

The review is designed to examine sources of evidence, and thereby determine whether or not the Council's system of internal audit is sufficiently effective for the Council to be able to place reliance on its assessment of the system of internal control.

### **1. Sources of Evidence**

1.1. The following information was used to assess the system of internal audit:

- Review of the Risk Management Strategy and Policy, along with progress made in implementing it;
- The Internal Audit plan, annual report of Internal Audit and other reports to the Audit and Risk Committee on the delivery of the Internal Audit Plan;
- An assessment of the effectiveness of reporting on audit work in providing assurance on actions taken to address control deficiencies;
- Reliance placed on Internal Audit's work where relevant by KPMG as the Council's external auditor;
- Self-assessment of compliance by Internal Audit with recognised professional standards;
- Analysis of Internal Audit client satisfaction returns;
- Key performance statistics produced by Internal Audit during the course of 2013-14;
- Comparative analysis of some statistical measures of the service with those of comparable local authorities (via CIPFA benchmarking);
- Review of the Council's arrangements for preventing and detecting fraud and corruption;
- An assessment of the work of the Audit and Risk Committee against the best practice set out in the CIPFA publication *Audit Committees - Practical Guidance for Local Authorities*.

1.2. The remainder of this paper considers and assesses each of the sources of evidence in turn.

### **2. Risk Management Strategy**

2.1. The strategy and policy have been reviewed and updated. Following their earlier acceptance by the Executive (as in 2011, 2012 and 2013)) these were brought to the Audit and Risk Committee at its meeting on 19 February 2014 seeking approval of the strategy and policy.

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**Assessment of the Effectiveness of the System of Internal Audit**

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- 2.2. The updated strategy sets out its objectives as follows:
- To provide Members and officers with risk management reports that give a comprehensive picture of the Council's risk profile;
  - To assist the Council and its partners to adopt a 'fit for purpose' methodology towards identification, evaluations and control of risks and to help ensure those risks are reduced to an acceptable level;
  - To ensure that transparent and robust systems are in place to track and report upon existing and emerging risks which potentially could cause loss or damage to the Council;
  - To help further integrate risk management into the culture and day-to-day working of the Council and ensure a cross-divisional/operational approach is applied;
  - To provide reliable information on which to base the annual governance assurance statement.
- 2.3. Whilst much progress has been achieved during the past four years since the introduction of the Risk Management Strategy and Policy, work still needs to continue to fully embed risk management within the Council. A degree of reassessment will be required to adapt prevailing processes to dovetail into and meet the new challenges that will arise from continuing organisational reorganisations with pressures on budgets continuing and the inevitable, continuing impact on services.

**3. Internal Audit Plan, Annual Report and reporting to the Audit and Risk Committee**

- 3.1. The annual Internal Audit Plan was prepared before the start of the 2013-14 financial year. This is a 'high level', generic plan outlining in broad terms the areas of coverage. It is supplemented with detailed quarterly plans focussing on the specific audits to be undertaken within these areas. This allows the work of the audit team to be directed toward those areas of highest risk as the Council's overall risk profile changes throughout the year. This is important as a means of establishing the extent to which internal audit reports can give assurance on the overall system of internal control.
- 3.2. As audit resources are finite, the audit plans are significantly focused on the highest-risk activities, subject to other sources of review and assurance (such as external audit) and previous Internal Audit work and findings. Specialist areas of coverage, including contract audit and core financial systems, have been maintained. The Council's investment in specialist IT audit has strengthened with the recruitment in year of an IT technical specialist.
- 3.3. The 2013-14 Annual Report of Internal Audit will be presented to this Committee at its meeting on 29 September 2014. Progress reports
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## Assessment of the Effectiveness of the System of Internal Audit

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have been submitted to the Committee throughout the year. These reports identified audit work done and its outcomes, with specific reference to any matters of concern. Progress reports will be presented to meetings of the Committee on a regular basis.

3.4. The reporting of audit work in this way stimulates a greater degree of action by officers to address audit findings and this should, in time, promote an improved internal control environment. As well as discussion of matters referred to in Internal Audit's own reports, the Committee has received specific reports from service management on:

- Project/Programme Assurance Process (Committee 24 October 2013)
- Regulation of Investigatory Powers (RIPA) Performance Report (Committee 24 October 2013)
- National Fraud Initiative – Annual report (Committee 14 November 2013)
- Corporate Compensation Policy (Committee 15 April 2014).

3.5. Internal Audit remained on course to achieve its target level of completion of planned audits during the year, despite the fact that the planned 2013-14 main financial systems work could not be completed until after the year-end. This has been planned for 2014-15 to take place at the start of the financial year so that this situation does not arise in future years.

#### **4. The effectiveness of reporting on audit work in providing assurance on actions taken to address control deficiencies**

4.1. The reporting to the Audit and Risk Committee makes a significant contribution in this respect. These reports identify Internal Audit reports finalised in the period under review and present a high level summary of Internal Audit's conclusions including the overall trends in the level of assurance Internal Audit can give on the strength of controls in operation.

4.2. In addition, Internal Audit prepares an annual Summary of Internal Audit Conclusions, which is submitted after the end of each financial year to the Strategic Management Board and the Audit and Risk Committee. At the time of writing, the Summary for 2013-14 is scheduled to come to this Committee on 29 September. These reports have been produced for a number of years and have always been well received and there is nothing to indicate that this will not be the case for 2013-14.

**5. Reliance on Internal Audit by the External Auditor**

- 5.1. The Council's external auditors have periodically reviewed the Internal Audit function. During 2009 they carried out their last review, which was reported to the Audit and Risk Committee at its meeting on 3 February 2010.
- 5.2. The auditor's assessment, at that time, concluded that Internal Audit fully or substantially met nine of the eleven CIPFA standards, and partially met the other two. No standards were assessed as not being met. An action plan to improve compliance further was prepared and recommended actions have been implemented where applicable.
- 5.3. There has not been a further external audit review of Internal Audit since 2009 and the Audit Commission, prior to its demise, had previously indicated that these reviews will no longer be undertaken. In future years, therefore, there will be a process of self-assessment against the CIPFA and the Public Sector Internal Audit standards. This has been done and a summary is given at paragraph 7 below. The Head of Internal Audit and Risk management is also in discussion with Derby City and Norfolk County Councils with a view to 'peer group' reviews in future years.
- 5.4. The External Auditors continue to place reliance on Internal Audit work during the year, particularly for audit testing in support of grant certifications. The Auditor's Annual Report on the Certification of Grants and Returns for 2012-13, referring to work done in 2013-14, concluded that *'The work was to a good standard and the conclusions well evidenced, allowing us to place reliance on their work'*.

**6. Internal Audit self-assessment of compliance with professional standards**

- 6.1. As noted at paragraphs 4.1 above and 6.2 below, Internal Audit operates to the CIPFA *Code of Practice for Internal Audit in Local Government in the UK* and the 'new' Public Sector Internal Audit Standards. These are recognised as the professional standards for internal audit in all UK local authorities. They set out a number of standards, covering the scope of internal audit, independence, ethics, the audit committee, internal audit's relationships (such as with management and the external auditors), staffing and training, the audit strategy and planning, undertaking of audit work, due professional care, reporting and performance, quality and effectiveness. These are in turn assessed against many individual criteria and are now used as the basis of a self-assessment of the Council's internal audit team.

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## Assessment of the Effectiveness of the System of Internal Audit

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- 6.2. A self-assessment review was completed in May 2013 and the conclusion was that all of the Standards continued to be met. There were a few detailed specific areas where improvements are needed, including:
- Arrangements for the seeking of audit assurances for services acquired by the Council through partnership arrangements (*CIPFA standard 1.2.3*)
  - The development of the Internal Audit strategy post the failed shared service (*4.2.2, 7.1.1*)
  - Clearer documentation of certain working protocols which apply in practice, e.g. communication between Internal Audit and elected members (*5.6.1*) and communication of the results of audit quality assurance review (*10.4.2*).
- 6.3. Action to address these was included within the Internal Audit 2013–14 Action Plan. A further self-assessment review (to include changes suggested as part of the ‘new’ Public Sector Internal Audit Standards is currently being carried out.

### **7. Internal Audit Client Satisfaction Returns**

- 7.1. Internal Audit’s main method of gauging clients’ views of its work is analysis of the satisfaction survey returns issued at the end of each audit. These indicate satisfaction levels of over 90% in each of the last three years. However, there remains a poor level of response from clients (returns in the mid-teens) which means that it is unsound to draw firm conclusions from this statistic. Having said that, it is likely that material dissatisfaction with the service would be made known in other ways and this has not been the case in the present year.

### **8. Performance Measures and Statistics**

- 8.1. The Internal Audit team produces performance measures and statistics during the course of the year on a monthly basis, together with time analysis showing time spent on individual audit reviews.
- 8.2. Key findings of these statistics are:
- The team continues its endeavours to maintain its performance in respect of delivering its annual plan, but has struggled to maintain the extent to which individual audits have kept within their time budgets. Performance remains below the target of 70%. One could argue that part of this is for reasons beyond Internal Audit’s direct control but that does not alter the need to tighten up performance against this measure.
  - Performance in respect of issuing reports has been relatively consistent over time. Around 70% of reports issued in the past



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## Assessment of the Effectiveness of the System of Internal Audit

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three years have been issued within the target of 15 days from the end of fieldwork. Pleasingly, an increasing number of final reports have been issued within the 15 day target of the draft report over the same period. In line with Internal Audit practice such delays are agreed, where possible, with the audit client.

- The productivity of individual auditors is also measured by the number of chargeable days (annualised) per full-time equivalent member of staff. This sits below the levels targeted although efforts are in hand to improve the level of productivity, which still remains below the average (180) for comparable unitary authorities.

### **9. Comparative Analysis**

9.1. The Internal Audit section is a member of the CIPFA audit benchmarking club and compares its performance with that of other local authorities. It is always difficult to draw conclusions from such exercises, although the findings appear to confirm that, when compared with other similar non-metropolitan unitary authorities:-

- In 2012-13 audit cost per £m turnover was below average for Leicester City Council (£469 compared with average £761). This represents a significant reduction on the costs in the previous year, however.
- Net cost per chargeable day is slightly higher than average, whereas cost per auditor per year is slightly lower than the average (£350/321 and £52k/£56k respectively).
- Leicester achieved 143 (176 in 2010-11) chargeable days per auditor in 2012-13 compared with an average of 173. The benchmark target for 2013/14 remains 180 days per auditor.

The CIPFA Audit Benchmarking Club endeavours to ensure that the comparisons are made on a like-with-like basis but there is always a risk of differences in interpretation by those submitting data. However, the benchmarking returns are the best source of comparative data available and the financial pressures make comparisons of this kind increasingly important.

### **10. Review of the Council's arrangements for preventing and detecting fraud and corruption**

10.1. The Council has for many years had a specialist counter-fraud function. This has two main elements, a Corporate Counter-Fraud Team and a separate Revenues and Benefits Investigations Team. Between them, these teams conduct investigations into fraudulent activity of all kinds against the City Council.

10.2. The Corporate Counter-Fraud Team was, until September 2012, part of Internal Audit. However, when the Internal Audit shared service

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## Assessment of the Effectiveness of the System of Internal Audit

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with the County Council was proposed, this team moved and now reports to the Head of Revenue and Benefits.

- 10.3. The Revenue and Benefits Investigations Team provides a specialist investigation service primarily for Housing and Council Tax Benefit fraud, working under regulations applicable to the Housing Benefits service. This team are also now engaged by the Insurance team to help investigate (and prosecute) insurance fraudsters.
- 10.4. The Council has an Anti-Fraud, Bribery and Corruption Policy and Strategy, which is reviewed and updated when necessary. The latest revision was approved by the Audit and Risk Committee at its meeting on 7 February 2013, with the latest review almost complete and the revised Policy and Strategy coming to this Committee on the 29 September 2014.
- 10.5. The work of the counter-fraud teams is regularly reported to the Audit and Risk Committee, usually at its meetings in July and December. The overall context remains a zero-tolerance approach to fraud against the Council, with a determination to prevent and detect fraud and deal with the culprits accordingly. In addition to direct investigation work, the Corporate Counter-Fraud Team also coordinates the City Council's participation in the National Fraud Initiative (NFI), which is a nationwide data-matching exercise.
- 10.6. As well as the teams mentioned above, the Council's Trading Standards service conducts investigations into various aspects of business malpractice, such as counterfeit goods and sales of licenced merchandise to under age children. Though not aimed at fraud against the Council, its activities are an important part of the Council's response to fraudulent activity within the City. The service's work is included in the annual counter-fraud reporting to the Audit and Risk Committee.
- 10.7. Finally, the Council has had a whistle-blowing policy for a number of years, to allow members of staff to report concerns or allegations of fraud and other malpractice in confidence. Following a number of high-profile referrals, which led to significant investigations, the policy became part of a wider Disclosure Policy which was brought to the Audit and Risk Committee for consideration and approval at its meeting on 18 October 2012, with the latest revised version scheduled to be presented to this Committee at its meeting on 3 December 2014.

## **11. Review of the Effectiveness of the Audit and Risk Committee**

- 11.1. In its publication *Audit Committees - Practical Guidance for Local Authorities*, CIPFA provided a self-assessment checklist to assist Councils in reviewing the effectiveness of their Audit Committees.

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Assessment of the Effectiveness of the System of Internal Audit

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11.2. Using this checklist, it is considered that the Audit and Risk Committee meets all the requirements for an effective Audit Committee.

11.3. In summary:

- The Committee meets regularly and its chairmanship and membership are sufficiently independent of other functions in the Council. Meetings are conducted constructively, are free and open and are not subject to political influences;
- The Committee's terms of reference, which were formally revised and approved during the year, provide a sufficient spread of responsibilities covering internal and external audit, risk management and governance;
- The Committee plays a sufficient role in the management of Internal Audit, including approval of the audit plan, review of Internal Audit's performance and the outcomes of audit work and management's response to that; and,
- The Committee receives reports from KPMG as the Council's external auditor and maintains an overview of the external audit process including the fees charged.

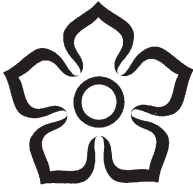
However,

- It is acknowledged that Committee members need suitable training. Arrangements have been made to provide training on a relevant topic at the beginning of every meeting of the Committee. The Committee is subject, of course, to the risk of turnover of membership each municipal year, which is an inevitable consequence of the political environment in a local authority.

## **12. Conclusion**

12.1. Drawing all of the above together, it is concluded that Leicester City Council has a sufficiently effective system of internal audit for the Council to be able to place reliance on its assessment of the system of internal control.





Leicester  
City Council

## FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Finance Management Team	12 June 2014
Corporate Management Board	6 August 2014
Audit & Risk Committee	30 July 2014

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### Internal Audit – 2<sup>nd</sup> Quarter Operational Plan 2014-15

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#### Report of the Director of Finance

##### 1. Purpose of Report

###### 1.1. Finance Procedure Rule 7.2.1 states that:

*‘The Head of Audit shall prepare and agree with the Chief Finance Officer an Annual Audit Operational Plan which will set out the intended work of Internal Audit over the coming year. The plan shall be based on an objective assessment of need arising from an analysis of risk and shall be approved, but not directed, by the Audit Committee.’ (sic)*

###### 1.2. The Internal Audit Plan for 2014-15 was prepared on the basis of broad areas of audit coverage rather than detailed lists of specific audits. It was considered by the Strategic Management and Operational Boards and was approved by the Audit & Risk Committee on 15 April 2014. It is supplemented by quarterly detailed operational plans.

###### 1.3. In addition, the terms of reference of the Audit & Risk Committee include:

*‘To consider, challenge and approve (but not direct) Internal Audit’s strategy and plan and monitor performance on an annual basis.’*

###### 1.4. This report presents to the Committee the detailed operational audit plan for the second quarter of the financial year 2014-15.

##### 2. Recommendations

###### 2.1. The Audit & Risk Committee is asked to note the Internal Audit operational plan for the second quarter of 2014-15, attached at Appendix A.

### 3. Report

- 3.1. Rather than presenting a detailed list of specific audits, the annual audit plan is grouped into areas of audit. The intention is that, given the continuing uncertainties the Council currently faces, the audit plan can be readily adjusted to reflect changes in risks and priorities while maintaining a sufficiency of audit coverage for each of the relevant areas.
- 3.2. The generic annual plan is then translated into detailed quarterly plans as the year progresses, setting out Internal Audit's intended work for each forthcoming quarter. These plans take into account emerging risks and requests for audit involvement alongside seasonal or other external factors that influence the timing of audit work. For example, grant certifications audits are determined by the submission deadlines of the relevant funding agency.
- 3.3. The detailed operational plan for the second quarter (Q2) of 2014-15 is attached at Appendix A. The following are worthy of note:
  - a) During Q2, many services and their support functions will be relocating because of the need to vacate New Walk Centre. This includes Internal Audit, which is due to move into City Hall. At the time of writing, the exact implications of this are unknown but they will affect the delivery of audit work. Internal Audit will agree the timing of each audit review with the service management involved. For this reason and because of other deferrals of work previously planned, the Q2 audit plan makes some allowance for completion of existing work commitments.
  - b) There is no specific provision for **main financial systems** audits in Q2 because a major programme of work on these has been undertaken in Q1. This was to ensure sufficient coverage of the whole of the financial year 2013-14 so that the external auditor can place reliance on Internal Audit's work should they wish.
  - c) **IT audit** will seek to assess the controls in place to manage areas of specific risk identified in consultation with the Head of Information Assurance. They chiefly concern the migration of data to the new Housing and Property IT systems and the security of customer data. In planning IT audits, Internal Audit is mindful of the move in early July of the ICT data centre from New Walk Centre to Beaumont Leys.
  - d) **Establishment audits** will concentrate on the assets and inventories in the Museums Service, in parallel with the IT audit of the electronic point-of-sale system in Museums. The previously planned audit of the *Visit Leicester* Centre, which recently came under Council control, has been deferred by agreement with the client into Q2 to allow management to undertake their own assessment of internal control processes before seeking assurance from Internal Audit as to their effectiveness.
  - e) **EMAS** (Eco-Management & Audit Scheme) work features prominently in Q2. It includes annual audit processes covering the financial year 2013-14 plus an

audit of one of the Council's corporate environmental priorities. Work continues in conjunction with the Council's Environment Team to develop the EMAS audit process. The aim is to make best use of limited audit resources and ensure coverage is directed towards the areas of greatest materiality to the Council's EMAS accreditation.

- f) Q2 includes several **grant certification audits** in accordance with the requirements of the relevant funding agencies.
- g) Finally, a significant outline provision is made for **follow-up** of previous audit recommendations. Internal Audit has revised the process so as to strengthen the independent confirmation that corrective actions have been demonstrably made to address identified weaknesses in controls.

- 3.4. It should be borne in mind that the quarterly plans refer to audits due to be started. Inevitably, they are not all completed within the quarter so there will be residual work to complete audits started in previous quarters.
- 3.5. In identifying the audits for the quarterly plans, due regard is had to the generic areas of audit set out in the annual audit plan and the need to ensure sufficient coverage of each by the end of the financial year.
- 3.6. The move to quarterly planning is intended to align Internal Audit's work as closely as possible to current priorities and circumstances. Nonetheless, urgent requirements may still arise that cannot wait until the next quarterly plan and have to be accommodated immediately on the basis of risk to the Council.

## **4. FINANCIAL, LEGAL AND OTHER IMPLICATIONS**

### **4.1. Financial Implications**

There are no direct financial implications arising from this report. However, as a result of the work carried out there would be an expectation that implementing recommendations made by Internal Audit will improve the effectiveness, efficiency and economy of service delivery, with potential for consequential reductions in cost or improvements in quality. (*Colin Sharpe, Head of Finance, x37 4081*)

### **4.2. Legal Implications**

The provision of 'an adequate and effective internal audit' is a statutory requirement under regulation 6 of the Accounts & Audit (England) Regulations 2011. The whole audit process is also intended to give assurance that all the activities audited have in place satisfactory arrangements to ensure compliance with relevant law and regulation applicable within the scope of the particular audit review. (*Kamal Adatia, City Barrister & Head of Standards, x37 1401*)

### **4.3. Climate Change Implications**

Other than its references to the Eco-Management and Audit Scheme (EMAS), this report does not contain any significant climate change implications and therefore should not have a detrimental effect on the Council's climate change targets. (*Duncan Bell, Senior Environmental Consultant, Environment Team, x37 2249*)

## 5. Other Implications

Other Implications	Yes/No	Paragraph/References within the Report
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	Yes	3.3(e) and Appendix 1: EMAS.
Crime and Disorder	Yes	Whole report and particularly 3.3(c) and Appendix 1: IT audit. Part of the purpose of Internal Audit is to give assurance on the controls in place to prevent fraud and other irregularity such as breach of data security.
Human Rights Act	No	
Elderly/People on Low Income	No	
0Corporate Parenting	No	
Health Inequalities Impact	No	
Risk Management	Yes	The whole report concerns the Internal Audit process, a main purpose of which is to give assurance to Directors and the Audit & Risk Committee that risks are being managed appropriately by the business.

## 6. Background Papers – Local Government Act 1972

6.1. Files held by Internal Audit.

## 7. Consultations

7.1. The quarterly audit plans are prepared in consultation with the Finance Management Team (which includes all Heads of Finance) and all Directors via the Corporate Management Board.

## 8. Report Author

8.1. Steve Jones, Audit Manager, Internal Audit, Financial Services, x37 1622 (0116 454 1622). [Steve.jones@leicester.gov.uk](mailto:Steve.jones@leicester.gov.uk)



Set out below are the individual audits expected to be started in the first quarter of 2014-15.

This is subject to:

- Client or process availability and readiness for audit
- Internal Audit resources
- Urgent commissioned work.

Audit	Lead Department and Division	Audit area	Planned days	Scope	Notes
Open Housing IT system - data migration	Corporate Resources (Information & Customer Access)	IT audit	10	Assurance to management that data migrated from old Open Housing (Capita) system to the new OH (Northgate) system is transferred accurately and completely.	This audit was included in the Q1 plan at which time the go-live date for the system was to be 1 April 2014. Internal Audit later learned the go-live date is October 2014, making the timing for this audit better suited to Q2.
Customer Data Integration (CDI)	Corporate Resources (Information & Customer Access)	IT audit	10	The aim of CDI is to gather information from across the organisation to present a true consistent, accurate, single view of data held about the Council's customers. The security and robustness of this major data-handling process are crucial to manage the major risks involved.	Ongoing throughout the year.
Concerto (Property and Asset Management System)	City Development & Neighbourhoods (Property)	IT audit	10	Concerto is a replacement system for PAMIS (the property and asset management system). Assurance to management that data migrated from PAMIS to Concerto is transferred accurately and completely.	

**Appendix A**  
**Internal Audit 2<sup>nd</sup> quarter operational plan 2014-15**

Audit	Lead Department and Division	Audit area	Planned days	Scope	Notes
Museums EPOS	City Development & Neighbourhoods (Cultural & Neighbourhood Services)	IT audit	10	The review will test the EPOS (electronic point-of-sale) controls to ensure data accuracy and confidentiality.	
Museums Assets & Inventories	City Development & Neighbourhoods (Cultural & Neighbourhood Services)	Cash audits and establishments	20	Review of the completeness and accuracy of the Museums inventory.	Work by the Risk Management & Insurance Team has identified significant discrepancies in valuations of the museum inventory. (Audit deferred from 2013-14 at client request.)
<i>Visit Leicester</i> Centre	City Development & Neighbourhoods (City Centre)	Cash audits and establishments	10	Review of the cash handling and related financial procedures, including sales stock and reconciliation procedures.	The Visit Leicester Centre transferred to direct City Council responsibility on 1 April 2014. This audit has been rescheduled by agreement with the Head of Finance.
Corporate Governance – Annual Governance Statement	Corporate Resources (City Barrister & Head of Standards)	Corporate governance	2	The assurance processes in place to determine compliance with the Council's Local Code of Corporate Governance and do so in a way that balances administrative efficiency with a robust and reliable assessment.	This work follows the annual review of the Council's assurance framework. It is intended to contribute towards the preparation of the Annual Governance Statement, which will be the main output from this work and will be presented in due course to the Audit & Risk Committee.

**Appendix A**  
**Internal Audit 2<sup>nd</sup> quarter operational plan 2014-15**

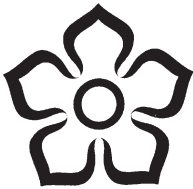
Audit	Lead Department and Division	Audit area	Planned days	Scope	Notes
EMAS Level 2: Street Cleanliness	City Development & Neighbourhoods (Property)	Environmental Audit	20	Audit of the environmental data collection process for corporate environmental priority ' <i>Objective 6: Improve the environmental quality of public streets and footways</i> '. Audit of the Council's approach to managing street cleanliness including complaints handling and compliance with relevant environmental legislation.	Following the corporate review of EMAS, the role of Internal Audit has been revised. Internal Audit will carry out audits on specific environmental themes, whereas Corporate Health & Safety (H&S) will undertake the site-specific EMAS audit work alongside their programme of H&S inspections.
EMAS Level 4: Audit of draft Interim Environmental Statement 2013-14	City Development & Neighbourhoods (Property)	Environmental Audit	5	Independent review of the draft interim environmental statement.	The published environmental statement is a central component of the Council's public accountability for its environmental stewardship.
EMAS Audit Annual Report for 2013-14	City Development & Neighbourhoods (Property)	Environmental Audit	3	Review of 2013-14 EMAS audit findings.	This report will feed into the annual EMAS Management Review report (prepared by the Environment Team for presentation to the Executive).
Teachers' Pension Return	Corporate Resources (Financial Services)	Grant Certification	10	Certification of return in line with the guidelines provided	Internal Audit preliminary work, prior to final sign-off by external auditor.
NNDR Return (if internal audit certificate required)	Corporate Resources (Financial Services)	Grant Certification	10	Certification of return in line with the guidelines provided; details are awaited from DCLG.	

Audit	Lead Department and Division	Audit area	Planned days	Scope	Notes
Local Transport Plan (Specific grant 2013/14: No. 31/2150)	City Development & Neighbourhoods (Planning, Transportation & Economic Development)	Grant Certification	8	Certification in line with grant determination.	To give independent confirmation on the appropriate use of Local Transport Capital Block funding. Grant certification submission deadline 30 September 2014.
Local Pinch Points Fund (LPPF) (Specific grants 2013/14: Nos. 31/2183 and 31/2274)	City Development & Neighbourhoods (Planning, Transportation & Economic Development)	Grant certification	12	The 2013-14 LPPF grant claim in line with the Department for Transport (DfT) certification guidelines.	To give independent confirmation on the appropriate use of Local Pinch Point funding. Grant certification submission deadline 30 September 2014.
Additional Highways Maintenance Funding. (Specific grant 2013/14: No. 31/2163)	City Development & Neighbourhoods (Planning, Transportation & Economic Development)	Grant certification	3	Certification in line with grant determination.	To give independent confirmation on the appropriate use of the Additional Highways Maintenance funding. Grant certification submission deadline 30 September 2014.
Leaseholder Reserve Funds	Housing	Certification	15	Leaseholder charges certification to ensure compliance with the relevant guidelines. Includes follow-up of previous audit recommendations.	Independent annual certification required under the leaseholder scheme for right-to-buy properties.

**Appendix A**  
**Internal Audit 2<sup>nd</sup> quarter operational plan 2014-15**

Audit	Lead Department and Division	Audit area	Planned days	Scope	Notes
Service charges	City Development & Neighbourhoods (Property)	Certification	5	Independent audit of service charges paid by a commercial lessee for the year ending 31 March 2014.	Under the lease agreement there is requirement for the services charges recharged by the Council to be independently audited. Internal Audit has been requested to carry out this audit, having provided this service in previous years.
Follow-up audits	Various	Follow-up audits	100	Evidence-based follow-up of past audit recommendations to assess progress made in implementation.	<p>Audit recommendations are agreed with service management in order to strengthen the controls in operation to protect the Council's interests. This work is intended to ensure that agreed actions are demonstrably put into effect.</p> <p>The provisional allocation is high because of the need to clear a significant number of audits completed over the past year and the more detailed methodology. Experience gained will inform planning of future follow-up audits.</p>
<b>TOTAL</b>			<b>263</b>		





Leicester  
City Council

**WARDS AFFECTED**  
All

## **FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:**

**Audit & Risk Committee**

**30 July 2014**

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### **Review of the Internal Audit Charter**

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#### **Report of the Director of Finance**

##### **1. Purpose of Report**

1.1. To seek the Committee's approval of amendments to the Internal Audit Charter.

##### **2. Recommendations**

2.1. The Committee is recommended to approve the revised Internal Audit Charter and agree that it accurately reflects the terms of reference of the Internal Audit service (Appendix 1).

##### **3. Summary**

3.1.1. Partly as good practice and partly in fulfilment of regulatory requirements, the City Council has in place a formally approved Internal Audit Charter and professional standards for Internal Audit. The professional standards<sup>1</sup> require the preparation of an Internal Audit Charter and set out the essential requirements.

3.1.2. The Internal Audit Charter has been updated and now needs the approval of the Audit & Risk Committee.

##### **4. Report**

###### **4.1. Revision of Internal Audit Charter**

4.1.1. For a number of years, the City Council has had in place a formally approved Internal Audit Charter. This sets out the terms of reference for the Council's Internal Audit service. The current version was approved by the Audit & Risk Committee at its meeting on 9 April 2013.

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<sup>1</sup> The *Public Sector Internal Audit Standards*, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and effective from 1 April 2013.

4.1.2. The purpose is to specify the responsibilities and objectives of Internal Audit, its position within the organisation, its scope, rights of access and reporting requirements and the prioritisation of audit work based on risk. In this way, the Council seeks to demonstrate its compliance with the requirement under Regulation 6(1) of the Accounts and Audit (England) Regulations, which requires that the Council:

*...undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'*

4.1.3. The Internal Audit Charter is subject to annual review and has been revised to take account of the requirements of the Public Sector Internal Audit Standards. These came into effect on 1 April 2013 and have been formally adopted by the Committee as the professional standards to which the Council's Internal Audit service shall operate. There are detailed attribute standards including the purpose, authority, independence, proficiency and quality of internal audit. The revised Internal Audit Charter has been reviewed against these where relevant and incorporates the necessary provisions.

4.1.4. The revised Internal Audit Charter is set out in full in Appendix 1 with the changes from the previous version underlined. The Committee is asked to approve this revised Charter.

## **5. FINANCIAL, LEGAL AND OTHER IMPLICATIONS**

### **5.1. Financial Implications**

An adequate and effective system of internal audit is a central component in the processes intended to help ensure that the Council operates efficiently, cost effectively and with integrity. An effective internal audit function is a key means by which the Director of Finance discharges her responsibilities under s151 of the Local Government Finance Act 1972 (see below). Such arrangements are intended to help the Council as it faces the financially challenging times ahead.

*Colin Sharpe, Head of Finance, x37 4081*

### **5.2. Legal Implications**

Internal Audit's work promotes sound financial management and legal compliance in all areas subject to review. It is a significant component of the requirements placed upon the Council for 'the proper administration of its financial affairs' by s151 of the Local Government Act 1972 as well as the specific requirements for internal audit under the Accounts and Audit (England) Regulations 2011.

*Kamal Adatia, City Barrister & Head of Standards, x37 1401*

### **5.3. Climate Change Implications**

This report does not contain any significant climate change implications and therefore should not have a detrimental effect on the Council's climate change targets.

*Duncan Bell, Senior Environmental Consultant, Environment Team, x37 2249*



**6. Other Implications**

<b>OTHER IMPLICATIONS</b>	<b>YES/NO</b>	<b>Paragraph/References Within the Report</b>
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Crime and Disorder	No	
Human Rights Act	No	
Elderly/People on Low Income	No	
Corporate Parenting	No	
Health Inequalities Impact	No	
Risk Management	Yes	The whole report concerns the Council's governance and assurance processes, a main purpose of which is to give assurance to Directors, the Council and this Committee that risks are being managed appropriately by the business. This includes the risks of fraud and financial irregularity.

**7. Background Papers – Local Government Act 1972**

7.1. Files held by Internal Audit.

**8. Consultations**

8.1. Via the Corporate Management Board and the Finance Management Team, all Directors and Heads of Finance have been consulted in the preparation of this report.

**9. Report Author**

Steve Jones, Audit Manager, Financial Services, x37 1622  
[steve.jones@leicester.gov.uk](mailto:steve.jones@leicester.gov.uk)



Leicester  
City Council

# Internal Audit Charter

Internal Audit is an independent appraisal function established for the review of the internal control system as a service to the City Council. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.

The Council has determined that the Director of Finance shall be the officer nominated under Section 151 of the Local Government Act 1972 to have responsibility for the proper administration of its (the Council's) financial affairs.

Provision of an adequate and effective Internal Audit is the responsibility of the Council under Regulation 6 of the Accounts and Audit Regulations 2011. This function has been delegated to the Director of Finance, who shall provide an Internal Audit service to the City Council in accordance with statutory requirements and professional standards. This latter requirement is met by virtue of compliance with the *Public Sector Internal Audit Standards*, issued by jointly by CIPFA<sup>1</sup> and the IIA<sup>2</sup> in 2013. These incorporate a definition of internal auditing and a code of ethics as well as attribute and performance standards.

## Definition of Internal Audit

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Leicester City Council has adopted the definition of Internal Audit as given in the *Public Sector Internal Audit Standards*:

*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*

## Responsibilities of Internal Audit

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Internal Audit's responsibility is to report to the Council on its assessment of the adequacy of the entire control environment, through the Audit & Risk Committee and the Executive.

It does this by:

- Providing assurance to the Council and its management on the quality of the Council's operations, whether delivered internally or externally, with particular emphasis on systems of risk management, resource control and governance.

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<sup>1</sup> Chartered Institute of Public Finance & Accountancy

<sup>2</sup> Chartered Institute of Internal Auditors

## APPENDIX 1 – INTERNAL AUDIT CHARTER

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- Providing equivalent assurances where necessary to relevant interested parties external to the Council, including the external auditor and funding agencies.
- ~~Through Internal Audit, the Corporate Counter-Fraud Team and the Revenue & Benefits Investigations Team, the prevention, detection and investigation of fraud are addressed. (The current Council procedures around the management of the risk of fraud are under review).~~
- Providing consultancy and advice on the setting up and monitoring of internal controls throughout the City Council and external organisations providing services on behalf of the City Council with the aim of improving economy, efficiency and effectiveness, managing risk and reducing the potential for fraud.
- Providing advice to the Council on those of its activities where there is felt to be exposure to significant financial, strategic, reputational and operational risk to the achievement of its (the Council's) objectives.

### In addition:

- Through Internal Audit, the Corporate Counter-Fraud Team and the Revenue & Benefits Investigations Team, the prevention, detection and investigation of fraud are addressed.

Internal Audit will do this in accordance with:

- Relevant codes of ethics, standards and guidelines issued by the professional institutes and the Relevant Internal Audit Standard Setters (RIASS)<sup>3</sup>; this refers to the *Public Sector Internal Audit Standards*
- The City Council's Constitution and other relevant corporate standards and policies
- Its own Audit Manual and other internal standards, which will be adhered to by all its staff, partners and agents. These include requirements for recording of audit work and evidence to support audit conclusions.
- The *Internal and External Audit Joint Protocol Working Arrangements*, or equivalent, as agreed from time to time with the Council's external auditor.

Internal Audit will consult with the Council's external auditor and with other relevant inspectorates and review bodies in order to coordinate effort and avoid duplication.

In addition, Internal Audit procedures are designed to ensure that all statutory and professional standards governing confidentiality of information are observed at all times.

### **Objectives of Internal Audit**

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As part of the City Council's system of corporate governance and in support of the Council's designated monitoring officer, Internal Audit's purpose is to support the Council in its activities designed to meet its declared objectives and to do so:

- As a contribution to the Council's management of risk

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<sup>3</sup> The RIASS include HM Treasury, the Department of Health, CIPFA and agencies of the Northern Ireland, Scottish and Welsh governments.

- As a contribution to the development and implementation of the Council's policies and procedures
- In compliance with the Council's values
- As an aid to ensuring that the Council and its members, managers and officers are operating within the law and prevailing relevant regulations
- As a contribution towards ensuring that financial statements and other published information are accurate and reliable
- In support of the Council in its management of human, financial and other resources in an efficient and effective manner
- In support of the Council in meeting its social, environmental and community priorities
- As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.

### Position of Internal Audit within the Organisation

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#### Senior management

Internal Audit reports to the Director of Finance. However, the Head of Internal Audit & Risk Management has the right to report directly to the Chief Operating Officer, the City Mayor or the Council (through the Audit & Risk Committee or the Executive) if, in the opinion of the Head of Internal Audit & Risk Management there are matters of concern that could place the Council in a position where the risks it faces are unacceptable.

#### 'The Board'

The *Public Sector Internal Audit Standards* identify that Internal Audit has a responsibility to the organisation's 'board'. This is defined in the Standards as:

*The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically, this includes an independent group of directors (e.g. a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the 'board' may refer to the head of the organisation. 'Board' may refer to an audit committee to which the governing body has delegated certain functions.*

The Council has delegated this function to the Audit & Risk Committee for the purposes of overseeing the Council's arrangements for audit, risk and the corporate governance assurance framework. The terms of reference of the Audit & Risk Committee include their responsibilities under the audit framework including internal audit.

#### Status of Internal Audit

Internal Audit is an independent review activity. It is not an extension of, or a substitute for, the functions of line management and must remain free from any undue influence or other pressure affecting its actions and reporting.

At all times, management's responsibilities include:

- Maintaining proper internal controls in all processes for which they have responsibility.
- Co-operating fully with Internal Audit and ensuring that Internal Audit can properly fulfil their role. To that end, there is an agreed protocol for escalating unresolved disputes.
- The prevention, detection and resolution of fraud and irregularities.
- Considering and acting upon Internal Audit findings and recommendations or accepting responsibility for any resultant risk from not doing so.

In addition, Internal Audit:

- Has no executive responsibility, thus protecting its independence of reporting and action.
- Reserves to itself the right to determine its own work plans and priorities, which it will do in full compliance with recognised professional standards. Whilst Internal Audit will respond to requests for specially commissioned assistance, this is always subject to its existing commitments and the respective levels of identified risk.
- Will prepare annually, for the endorsement and agreement of the Audit & Risk Committee, an operational plan of the activities and areas that are to be covered by its work. This in turn will be based on a strategic audit risk assessment and prioritisation of key business, operational, management and financial risks.

### Scope of Internal Audit activity

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Internal Audit shall review, appraise and report upon:

- The effectiveness of all controls and other arrangements put in place to manage risk
- The completeness, reliability and integrity of information, both financial and operational
- The systems established to ensure compliance with policies, plans, procedures, laws and regulations whether established by the Council or externally
- The effectiveness of arrangements for safeguarding the Council's assets and interests
- The economy, efficiency and effectiveness with which resources are deployed
- The extent to which operations are being carried out as planned and objectives and goals are met.

Internal Audit's work covers:

- All City Council activities, systems, processes, controls, policies, and protocols
- All City Council departments, cost centres and other business units and establishments
- All services and other activities for which the City Council is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

In addition:

- Where Internal Audit provides advice on the setting up of controls, it will do so as a consultant and the provision of such advice does not prejudice the right of Internal Audit

subsequently to review, comment on and make recommendations on the relevant systems or controls in appropriate circumstances.

- The provision of an investigations service to support management in fulfilling its responsibilities to prevent, detect and resolve fraud, bribery, corruption and other irregularities is the responsibility of Internal Audit, the Corporate Counter-Fraud Team and the Revenues & Benefits Investigations Team (~~although these latter roles are currently under review~~).

### Rights of Access

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For the purposes of carrying out Internal Audit's responsibilities, internal auditors shall:

- Have access at all times to any City Council premises and property
- Have access to all data, records, documents and correspondence relating to any financial or any other activity of the City Council
- Have access to any assets of the City Council
- Be able to require from any member, employee, agent, partner, contractor or other person engaged on City Council business, any information and explanation considered necessary to allow it to properly fulfil its responsibilities.

These rights of access include access to relevant records (whether electronic or otherwise) held by service providers. They apply to Council services provided under contracts and partnership arrangements of all kinds including joint, shared and pooled arrangements. This right of access shall be incorporated within all relevant contract or service agreement documents involving City Council services provided other than internally. It applies to all internal auditors legitimately engaged on Leicester City Council Internal Audit business, whether they are employees of Internal Audit or are provided under an authorised agency or other contract or partnership.

Where services subject to audit are provided to the Council through partnership arrangements, the Head of Internal Audit & Risk Management shall decide, in consultation with all parties, the extent to which reliance shall be placed on assurances provided on behalf of partner organisations or their internal auditors. Where appropriate, adequate access rights will be agreed if it is determined that Internal Audit should conduct its own work to derive relevant assurances rather than rely on other parties.

Internal Audit will safeguard all information obtained in the carrying out of its duties and will only use it for the purposes of an audit or investigation. Internal Audit will make no disclosure of any information held unless this is authorised or there is a legal or professional requirement to do so.

### Reporting

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Internal Audit:

- Reports on its work and makes recommendations addressed to the relevant Director and such other levels of management as need to know and are capable of ensuring that appropriate action is taken.

- Will report as required on the results of its work (including progress made in delivering the agreed Audit Plan) to the Director of Finance and the Audit & Risk Committee. This will include an annual report, which will contain the annual audit opinion on the effectiveness of the City Council's internal control environment. This annual report will also be the basis of an annual review of the effectiveness of the system of internal audit as required of the Council by the Accounts and Audit Regulations.
- Accepts that its responsibility does not cease at the point where a report is issued and will take reasonable action to ensure that recommendations are implemented, having due regard to the duty of the Director of Finance to ensure the Council has efficient arrangements for managing its financial systems.
- Will agree suitable performance measures from time to time with the Director of Finance to evaluate its performance and will maintain and publish information accordingly.
- Will make available, as requested, to members of the Audit & Risk Committee its final reports on audits and investigations (except where these make specific reference to disciplinary or legal matters concerning named individuals). The Director of Finance may stipulate that reports are to be treated in confidence.

The work of Internal Audit (including its opinion on the control environment) shall contribute to the Council's review of its system of internal control as required by the Accounts and Audit Regulations 2011.

### **Audit Resources and Work Prioritisation**

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The annual audit plan as agreed by the Audit & Risk Committee shall be the main determinant of the relative priority to be placed on each part of the work of Internal Audit. The Head of Internal Audit & Risk Management shall determine the actual deployment of available resources and shall do so within the framework of risk prioritisation used to draw up the strategic audit risk assessment.

The plan will have within it provision of resources to address unplanned work. This contingency shall be directed towards unplanned work including consultancy engagements and covering other unforeseen variations in the level of resources available to Internal Audit, such as staff vacancies.

The Head of Internal Audit & Risk Management shall determine the resources needed, including the skills required, to deliver the audit plan. In the event that the audit risk assessment identifies a need for a greater degree of audit work than there are resources available, the Head of Internal Audit & Risk Management will identify the shortfall in the annual Internal Audit Plan and initially advise the Director of Finance, followed by the Audit & Risk Committee as needed. It shall be for the Audit & Risk Committee to decide whether to accept the risks associated with the non-delivery of such audit work or to recommend to the Council that it requires the Director of Finance to identify additional resources.

### **Approval**

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The Charter was reported to and approved by the Audit & Risk Committee at its meeting on ~~9<sup>th</sup> April 2013~~ 30 July 2014 and shall be subject to regular review by the Director of Finance and the Audit & Risk Committee.





# Appendix B1

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

