

Leicester  
City Council

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

**DATE: WEDNESDAY, 12 AUGUST 2015**  
**TIME: 5:30 pm**  
**PLACE: Meeting Room G.01, Ground Floor, City Hall, 115 Charles Street, Leicester, LE1 1FZ**

### **Members of the Committee**

Councillor Patel (Chair)  
Councillors Alfonso, Hunter, Singh-Johal and Westley

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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*Leicester City Council,*  
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- ✓ to respect the right of others to view and hear debates without interruption;
- ✓ to ensure that the sound on any device is fully muted and intrusive lighting avoided;
- ✓ where filming, to only focus on those people actively participating in the meeting;
- ✓ where filming, to (via the Chair of the meeting) ensure that those present are aware that they may be filmed and respect any requests to not be filmed.

### Further information

If you have any queries about any of the above or the business to be discussed, please contact 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 1<sup>st</sup> July are attached, and Members will be asked to confirm them as a correct record.

### **4. REPORT ON THE TRANSITION TO NEW BANKING ARRANGEMENTS**

**Appendix B**

The Director of Finance submits a report that provides Committee with an update on the project to transfer the Council's banking services from the Co-operative Bank to Barclays Bank. The main project has now been completed and the report details the procurement and implementation of the new contract and notes changes to facilities arising from the new arrangements. The Audit and Risk Committee is recommended to note the report, and make any comments it sees fit either to the Director of Finance.

### **5. REGULATION OF INVESTIGATORY POWERS ACT 2000 - BI-ANNUAL PERFORMANCE REPORT JANUARY 2015 - JUNE 2015**

**Appendix C**

The City Barrister and Head of Standards submits a report on the performance of the Council in authorising Regulatory Investigatory Powers Act (RIPA) applications, from 1<sup>st</sup> January 2015 to 30<sup>th</sup> June 2015. The Committee is recommended to receive the report and note its contents, note the reviewed Surveillance Policy, and make any recommendations or comments it sees fit either to the Executive or City Barrister and Head of Standards.

### **6. COUNTER-FRAUD ANNUAL REPORT 2014-15**

**Appendix D**

The Director of Finance and the Director of Environmental and Enforcement Services submit a joint report, which provides the Audit and Risk Committee on counter-fraud activities during 2014-15. The Audit and Risk Committee is recommended to receive the report, and make any recommendations it sees fit to the Executive, Director of Finance or Director of Environmental and Enforcement Services.

**7. DRAFT STATUTORY STATEMENT OF ACCOUNTS FOR THE FINANCIAL YEAR 2014-15** [Appendix E](#)

The Director of Finance presents the Draft Statement of Accounts for the year ended 31<sup>st</sup> March 2015. The Audit and Risk Committee is recommended to note the draft accounts for the year ended 31<sup>st</sup> March 2015 as submitted for audit.

**8. REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT IN 2014-15** [Appendix F](#)

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 2014-15. 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.

**9. RISK MANAGEMENT AND INSURANCE SERVICES UPDATE REPORT** [Appendix G](#)

The Director of Finance submits a report that provides Committee with the regular update on the work of the Council's Risk Management and Insurance Services team's activities. The Committee is recommended to receive the report and note its contents, and make any recommendations or comments it sees fit either to the Executive or Director of Finance.

**10. ANNUAL APPROVAL OF THE POLICY FOR THE ENGAGEMENT OF EXTERNAL AUDITORS FOR NON-AUDIT WORK** [Appendix H](#)

The Director of Finance submits a report to seek the Audit and Risk Committee's approval of the Policy for Engagement of External Auditors for Non-Audit Work. The Committee is recommended to approve the Policy.

**11. 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)

This report concerns the strength of internal controls in the City Council's financial and management processes and includes references to material weaknesses and areas thereby vulnerable to fraud or other irregularity. It is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

INTERNAL AUDIT UPDATE REPORT, THIRD AND FOURTH QUARTERS,  
2014-15 – OUTCOMES ONLY APPENDIX B1

**12. INTERNAL AUDIT UPDATE REPORT - THIRD AND Appendix B1  
FOURTH QUARTERS 2014-15**

The Director of Finance submits a report that provides the Audit and Risk Committee with a summary of Internal Audit work completed in the third and fourth quarters of the financial year 2014-15; that is between 1 October 2014 and 31 March 2015. The report provides relevant information on the progress made by the Council in implementing recommendations arising from reports issues by Internal Audit, and to provide more detail on those Internal Audit reports in which low assurance levels have been given and where there are material concerns.

The Committee are recommended to receive the report and note the key issues identified.

**13. ANY OTHER URGENT BUSINESS**









Leicester  
City Council

Minutes of the Meeting of the  
AUDIT AND RISK COMMITTEE

Held: WEDNESDAY, 1 JULY 2015 at 5:30 pm

P R E S E N T:

Councillor Patel (Chair)  
Councillor Malik (Vice Chair)

Councillor Alfonso

Councillor Singh-Johal

Councillor Westley

\* \* \* \* \*

**1. APOLOGIES FOR ABSENCE**

There were no apologies for absence made.

**2. DECLARATIONS OF INTEREST**

There were no declarations of interest made.

**3. MINUTES OF THE PREVIOUS MEETING**

The Committee received the minutes of the meeting held on 31<sup>st</sup> March 2015.

It was noted that there were no changes to Minute 9, regarding the appointment of Chair and Vice-Chair to the Audit and Risk Committee. However, Members said they would recommend to a future Independent Panel for Members Allowances that an SRA be provided for the Vice-Chair.

**AGREED:**

that the minutes of the previous meeting of the Audit and Risk Committee held on 31<sup>st</sup> March 2015 be confirmed as a correct record.

**4. UPDATE ON ACTIONS ARISING FROM THE OFSTED REPORT ISSUED IN MARCH 2015, AND DISCUSSION ON THE CHILDREN, YOUNG PEOPLE AND FAMILIES RISK REGISTER**

The Strategic Director, Children's Services, presented a report which provided information to the Audit and Risk Committee on work carried out to address the

recommendations of the Ofsted report issued in March 2015, and the updated Strategic and Divisional Risk Registers.

The report was presented to update the Committee on the Ofsted Action Plan which the Improvement Board would oversee. The Plan had been presented to Ofsted who had stated the Plan was fit for purpose and had been signed off by the Improvement Board. The Plan would be taken through a formal Committee to decide on where the Plan sits, either scrutiny or governance, and once established would then be shared with Members of the Audit and Risk Committee. Members were concerned that too much scrutiny and not enough governance would impede the progress of the Action Plan.

Members moved that accountability rested with the Executive and City Mayor, and that the role of the Audit and Risk Committee was to be satisfied that risk had been identified and was being properly managed. It was suggested a separate session outside of the Committee be convened to discuss the Action Plan. It was also agreed that, on a regular basis, the Audit and Risk Committee be apprised of progress, and action identified in a timely fashion. The Head of Internal Audit and Risk Management informed the meeting that risk would be reported quarterly through the risk registers (which had been updated to better reflect this risk) and that Internal Audit would work with Directors to provide assurance to the Corporate Management Team, Executive and the Audit and Risk Committee, on the effectiveness of and progress being made against the Action Plan.

The Chair thanked officers for the report.

RESOLVED:

that the Committee:

1. receive the report on the Ofsted Action Plan and note its contents;
2. be regularly apprised of progress, and risk reported quarterly through the Strategic and Divisional Risk Registers, and regular Internal Audit update reports; and,
3. that a separate session be convened with officers to discuss the Action Plan.

## **5. REVIEW OF THE ANTI-FRAUD, BRIBERY AND CORRUPTION POLICY AND STRATEGY**

The Director of Finance presented a report on the review of the Anti-Fraud, Bribery and Corruption Policy and Strategy, which asked the Committee to review and approve, on an annual basis, the Council's anti-fraud and corruption and whistle-blowing policies and procedures.

The Director of Finance reported that the Policy was reviewed annually and the latest review included consideration of the new Bribery Act 2010, and referenced the Corporate Investigations Team and updating of the annual Audit Commission report *Protecting the Public Purse*. The Director of Finance

emphasised the Council had a 'zero tolerance' approach to bribery and corruption. It was reported that the Council could recover losses using legislation such as the Proceeds of Crime Act to do so.

The report also highlighted the need to embed the risk of fraud and corruption into the culture of the organisation, and that training was provided to management and officers to ensure they considered ways to minimise the risk of fraud, bribery and corruption.

RESOLVED:

that the Committee:

1. note the report; and,
2. approve the Anti-Fraud, Bribery and Corruption Policy.

## **6. EXTERNAL AUDITOR'S ANNUAL AUDIT FEE LETTER 2015-16**

The External Auditor (KPMG) presented to the Audit and Risk Committee the Annual Audit Fee Letter, which summarised the audit work and fee proposed for the 2015/16 financial year at Leicester City Council.

Members were asked to note that although the Audit Commission formally closed at the end of March 2015, it was responsible for setting audit fees for the audit of the 2015/16 financial year. Responsibility for determining audit fees in the future has transferred to Public Sector Audit Appointments Limited (PSAA), and the National Audit Office (NAO) was responsible for producing and maintaining the Code of Audit Practice (the Code) and providing support and guidance to auditors.

The External Auditor presented the planned audit fees based on a 25% reduction compared with the fees applicable for 2014/15. Members were also informed that, as KPMG had not yet completed their audit for 2014/15, the audit planning process for 2015/16 including the risk assessment would continue and fees would be reviewed and updated as necessary.

The External Auditor also informed the meeting that the Chartered Institute for Public Finance and Accountancy (CIPFA) had confirmed a change in accounting policy which would be introduced for the accounts from 2016/17, in relation to the measurement of transport infrastructure assets for authorities with highways responsibilities.

The Chair thanked the External Auditor for the report.

RESOLVED:

1. that the Committee note the report.

## **7. ANNUAL APPROVAL OF THE 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 annual approval of the 'Policy for Engagement of External Auditors for Non-Audit Work'.

The Head of Internal Audit and Risk Management requested that the report be withdrawn until the Audit and Risk Committee meeting on 12<sup>th</sup> August 2015, to allow for an amendment to be made to the report following a recent change in guidance. Members were informed that the report would still be presented within the timeframe required.

The Chair agreed the report be withdrawn and presented at the next meeting.

AGREED:

1. that the report be presented to the Audit and Risk Committee meeting on 12<sup>th</sup> August 2015.

## **8. PROPOSED SCHEDULE OF MEETINGS FOR THE FINANCIAL YEAR 2015-16**

The Director of Finance submitted a report to the Audit and Risk Committee which outlined the schedule of meetings and suggested agendas for the Financial year 2015-16. The Head of Internal Audit and Risk Management presented the report.

The meeting was informed the proposed plan was a working document, and contents of the plan would be brought to the Committee over the financial year, though could be subject to change over the course of the year.

The Chair thanked the Head of Internal Audit and Risk Management for the report.

RESOLVED:

that the Committee:

1. note and accept the proposed plan content.

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

The Director of Finance submitted a report that provided the Audit and Risk Committee with the regular update on the work of the Council's Risk Management and Insurance Services team's (RMIS) activities. The Head of Internal Audit and Risk Management presented the report.

The report outlined the functions of the RMIS team and progress against their objectives, and enabled the team to bring to the attention of members any significant changes. Members were informed that the submission of the Divisional risk registers to RMIS was, once again, 100%, with a total of 13 changes to the Strategic Risk Register and 34 changes across 15 Divisional Registers. The Head of Internal Audit and Risk Management said it showed managers were looking at their own service areas' risk registers on a regular basis, and that management teams were now more risk aware. An RMIS training programme would also continue to be delivered.

It was reported there were no significant changes to bring to the Committee's attention. Members were also asked to note that since the last report to Committee, the Council had had no insurance claims cases go to court, but there would be some cases to report upon at the next meeting of the Committee.

The Chair thanked the Head of Internal Audit and Risk Management for the report.

RESOLVED:

that the Committee:

1. receive the report and note its contents.

#### **10. INTERNAL AUDIT - 2ND QUARTER OPERATIONAL PLAN 2015-16**

The Director of Finance submitted to the Audit and Risk Committee the detailed operational audit plan for the second quarter of the financial year 2015-16, agreed by the Corporate Management Team and the Finance Management Team. The Audit Manager presented the report.

The Audit Manager drew to Members' attention the following items:

- a) IT audit will assess the security arrangements in place on major new or enhanced IT systems.
- b) Grant certification audits, to provide audit certificates in line with the requirements of the relevant funding agencies.
- c) Continuing work on Regional Growth Fund and City Deal grant payment verifications on behalf of the Leicester and Leicestershire Enterprise Partnership (LLEP).
- d) Provision for the follow-up of previous audit recommendations to provide independent confirmation that corrective actions have been demonstrably made to address identified weaknesses in controls.
- e) Internal Audit has been actively pursuing opportunities for income-generating work for other organisations and local authorities. This additional work will be balanced alongside work for Leicester City Council.

The Chair thanked the Audit Manager for the report.

RESOLVED:

1. that the Committee note the Internal Audit operational plan for the second quarter of 2015-16.

#### **11. REVIEW OF INTERNAL AUDIT**

The Head of Internal Audit and Risk Management asked the Committee to note the upcoming review of the internal audit service, driven by the fact that more Internal Audit work was being delivered for external clients in a bid to balance

the budget and sustain the viability of the full range of audit services for the Council.

External contracts were important as staff on temporary contracts would be paid for by external funding, and though a profit could not be made, any surplus complemented the financial needs of internal audit.

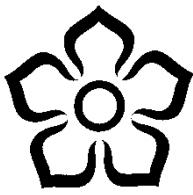
The Chair thanked the Head of Internal Audit and Risk Management for the information.

## **12. ANY OTHER URGENT BUSINESS**

The Chair noted that risk implications were not mandatory in reports and the Chair thought they should be, and asked that it be put forward as a recommendation that future reports (including all reports to Committees, Executive, etc.) include the item. The Director of Finance agreed to put the recommendation forward to the City Mayor.

## **13. CLOSE OF MEETING**

The meeting closed at 7.11pm.



Leicester  
City Council

WARDS AFFECTED  
All

# Appendix B

Audit & Risk Committee

12<sup>th</sup> August 2015

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## Report on the Transition to New Banking Arrangements

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### Report of the Director of Finance

#### 1. Purpose of Report

- 1.1. This report updates the committee on the project to transfer the Council's banking services from the Co-operative Bank to Barclays Bank. The main project has now been completed and the report details the procurement and implementation of the new contract and notes changes to facilities arising from the new arrangements.

#### 2. Recommendations

- 2.1. The Audit & Risk Committee is recommended to note the report and make any comments it sees fit.

#### 3. Summary

- 3.1. The report will address in the following sections:
- 4) The overall context of the project
  - 5) The procurement process
  - 6) The implementation phase
  - 7) Transfer of receipt of income
  - 8) The key outcomes & achievements of the project
  - 9) Key controls that are in place as part of the new arrangements
  - 10) Use of cheques in schools and the Council
  - 11) Ongoing relationship with Co-op
  - 12) A glossary of key terms

#### 4. Overall context of the project

- 4.1. The Council's banking facilities had been provided by the Co-operative Bank ("the Co-op") for around a decade prior to April 2015. The Co-op had held a very strong position in the local authority banking market.
- 4.2. Following the global financial crisis and the merger with Britannia Building Society in 2009, the Co-op suffered from well-documented financial problems culminating in the near collapse of the bank and eventual takeover of by a consortium of bond-holders, primarily US-based hedge funds, in late 2013.

- 4.3. The extended period of uncertainty resulting from the Co-op's problems required the Council to take a range of measures to minimise our financial exposure to the Co-op. The administration of measures placed a considerable extra burden on LCC officers.
- 4.4. The Council's contract with the Co-op, including all extensions, expired on 31<sup>st</sup> March 2015. It was therefore known that a procurement exercise would be required in any event, but in November 2013 the Co-op announced that it had decided to exit the local authority market completely.
- 4.5. It was then clear that there would have to be a transition to a new bank and that the new arrangements would have to be in place by March 2015.

## **5. The procurement process**

- 5.1. Because of the specialist nature of banking services, it was felt prudent to appoint an advisor. A small procurement exercise was undertaken in late 2013 and Focus on Banking Ltd were appointed. Focus on Banking are a reputable firm that have supported a large number of local authorities with their banking needs over recent years.
- 5.2. It is important to note that Focus on Banking (FoB) were appointed solely as advisors to the project. All substantial decisions and tasks were undertaken by Council staff. Focus on Banking provided us with knowledge of the sector and experience gained from supporting a large number of changes of banking provider by other councils, but we also wanted to ensure that the project built the experience and capacity of Council staff rather than relying on external contractors to do the work.
- 5.3. Following the appointment of FoB, it was decided that the Council would issue its own tender rather than seek to participate in any framework agreements. This was felt to offer both value for money and the potential to secure a more tailored service. The tender specification was put together with support from a range of colleagues within the Council and the advice of FoB.
- 5.4. An Invitation to Tender was issued in May 2014. Following receipt of four bids an evaluation was carried out in accordance with all relevant requirements and Barclays Bank were awarded the contract. Following the completion of all aspects of the procurement process, work on the implementation began in November 2014.

## **6. The implementation phase**

- 6.1. The implementation of the change of banking provider had two parallel but distinct areas:
  - Corporate council accounts and services
  - The 88 schools which banked with the Co-op
- 6.2. Whether for the Council's own accounts or for schools, changing bank accounts is, in essence, not particularly complicated, though of course there is a lot of detail behind the actual transition that makes it a complicated exercise. The steps include:
  - a) Setting up new accounts, account mandates, controls and processes.
  - b) The transfer of payments functions to begin paying from new accounts.
  - c) The redirection of income into the new accounts
  - d) The closure of the old accounts



- 6.3. In relation to the Council's corporate accounts, the Barclays accounts went live at the beginning of February 2015 and the transition was completed by April 2015. Some key aspects of this work included:
- a) Agreeing the Council's group banking arrangements with Barclays
  - b) Setting up the Barclays.Net online banking platform for Council users, and setting up controls within the website to prevent inappropriate transfer of funds
  - c) Putting in place facilities for accessing cash, including debit cards, and banking cash
  - d) Transferring the Council's BACS payment processes and receipt of income to Barclays, including communicating with customers and funding bodies to ensure they made necessary changes to the details they hold
- 6.4. The transition of 88 schools from Co-op to Barclays was a major logistical exercise. Officers were conscious that schools were not obliged to transfer to Barclays as they are able to choose their own providers if they wish.
- 6.5. After much preparatory work, a meeting was held with school representatives in January 2015 at which the benefits of the Council contract, and the process for transition, were outlined. All of the schools with Co-op accounts elected to transfer to Barclays.
- 6.6. The process of transition was in essence similar to that for the Council: mandates were signed; schools were set up with access to the Barclays.Net online banking platform; they produced new cheques for their Barclays accounts and put in place arrangements for access to cash and cash collections where required.
- 6.7. There were several challenges faced in this transition around logistics, systems, and authorisation processes. These challenges were overcome effectively and the project team worked hard to communicate clearly with schools and to keep the focus on minimising disruption and focusing on service needs throughout.
- 6.8. The scale of the project meant that this was a real challenge but the outcome was that all schools transferred successfully to Barclays within the required timescales and the new arrangements are now bedded in.

## **7. Transfer of receipt of income**

- 7.1. In most similar projects, there would be an extended period of 'cross-over' where both new and old accounts were open. This allows the Council to ensure that it can recover all payments that are made to it, even if these still go to the old accounts.
- 7.2. Because of the situation with the Co-op bank, the period of cross-over with the Barclays accounts was only three months (February-April). Most other transitions would have a cross over period of many months or even years.
- 7.3. The majority of payments to the Council could all be redirected to the Barclays accounts 'at the back end', whether within banking systems or Council systems. The only group to which this did not apply were customers who have the Council's old details saved in their personal banking websites/apps.
- 7.4. We used payment data from February and March to contact as many of these customers as possible to advise them of the need to change the payment details they held for the Council. The risk to the Council is that if they do not change their details, future payments will be returned to them because the accounts are closed.

- 7.5. The Council would still seek to recover payment through the normal processes for arrears or unpaid debt but of course from the point of view of both Council resources and customer service this is a less than ideal solution.
- 7.6. At this stage it appears that the communication efforts made have been largely successful and there has been no noticeable impact either on the work of customer-facing teams or on the level of arrears.
- 7.7. For organisations that pay us via their own BACS systems, a redirection service is in place (much like a postal redirection) that ensures payments are redirected for a period of 12 months, even if the customer has not changed our details in their system. We receive reports of these redirected payments and are using these to contact customers to remind them to make the change at source. This should minimise the risk of payments to us not being received when the redirection ceases.

## **8. Key outcomes and achievements**

- 8.1. The project was successful in transferring the Council's operations (including schools) to the new bank within the required timescales and with minimal impact on service delivery. We received feedback from Barclays that they had a very positive view of the Council's handling of the project and that it had gone smoothly in comparison to some similar implementations they have worked on.
- 8.2. The price of the service is volume-driven so a like-for-like comparison of costs is difficult at this stage, but based on the model used to assess the bids, the contract represents a significant saving over the previous arrangements which could be as high as 50%.
- 8.3. The contractual agreement with Barclays gives the Council a solid foundation for its banking services into the future. It is a clear and practical document that should provide an effective framework for managing the service over its life.
- 8.4. The core contract is for five years but if the arrangements continue to represent value for money then there is the option to agree extensions for up to a further 12 years.
- 8.5. The group banking arrangements provided by Barclays represent a significant step forward over previous arrangements and make it much easier for the Council to manage its financial exposure to the bank whilst also maintaining the best operational processes – something that had become very challenging with the previous provider.
- 8.6. The project has been used to make some very significant efficiencies and improvements within the Council's own arrangements, including reducing the overall number of bank accounts; freeing up considerable officer time and improving the knowledge base within key teams.
- 8.7. A number of new facilities have been introduced that increase our capabilities, including:
  - a) The use of debit cards in key service areas
  - b) Wider access to online banking for those who need it
  - c) The facility to make Faster Payments
  - d) The facility to initiate Direct Debits directly from the Barclays.Net site

## **9. Key controls in place**

- 9.1. Whilst the change of bank has in most cases not resulted in changes to the controls regime already in place, it is worth noting some of the key controls, including some new ones.
- 9.2. Payments made to other people or organisation via BACS require authorisation within the source system that produces them. Authorisation for these was not therefore affected by the change in banks.
- 9.3. Payments made via BACS or CHAPS through the online banking platform are subject to segregation and authorisation controls, as they have been previously. The same controls also apply to the new Faster Payments facility.
- 9.4. These controls have been set up by LCC within the online banking administration and are controlled by officers who are not able to initiate or authorise payments. Changes made by administrators require the involvement of more than one officer and administrators cannot be created without the involvement and approval of both Council account signatories and the bank.
- 9.5. Council cheques are pre-printed with a lithographed signature. The cheques are held securely and use of cheques is reconciled to ensure none go astray. Cheques over a certain threshold require a second signature from one of the Council's authorising officers. Schools administer their own cheques and have existing processes in place for doing this.
- 9.6. Debit cards are held individually and cardholders have signed a declaration about their use of the card, including the condition that they are the exclusive user of the card. Cards can only be used to spend up to the amount of money that is in the account they are attached to (i.e. there is no overdraft facility for them) and there is a segregation of duties around the transfer of funds into these accounts, which limits exposure to fraud or misuse of the cards.

## **10. Use of cheques in schools and by the Council**

- 10.1. LCC schools still pay suppliers primarily using cheques. The Barclays.Net platform will allow schools to use electronic BACS payments instead. This can result in faster and more secure payments to suppliers, as well as savings in terms of the cost of bespoke cheques, postage, officer time etc.
- 10.2. It was felt to be impractical to introduce this change at the same time as the overall transition, but a pilot and subsequent roll out is planned for the autumn term, so all schools should be enabled to make electronic payments by the end of 2015, with appropriate controls and procedures in place.
- 10.3. It is not possible to centrally assess the saving to be made across LCC schools from moving to electronic payments, but it is estimated that the saving could be in the region of £100k per annum.
- 10.4. The Council is also exploring the possibility of ceasing or minimising the use of cheques corporately in favour of cheaper electronic payments, and has already made significant reductions in the numbers produced.

## **11. Ongoing relationship with Co-op**

- 11.1. Whilst the Co-op Bank no longer provide the Council's core banking service, the Council still works with them under a separate contract in relation to bill payment services. The Co-op provides back-office functions to the Post Office & PayPoint bill payments service and we retain a Co-op account for the purpose of receiving these funds.

## 12. Glossary of key terms

|                      |   |
|----------------------|---|
| Bond-holders         | Those who had bought bonds issued by the Co-op bank and therefore had the option to convert their debt into equity ownership of the bank as part of its rescue package  |
| Invitation To Tender | An official document that sets out the Council's requirement for services, informs bidders of the tender process and gives them the information they need to prepare a bid.   |
| BACS                 | A method of electronic payment. Takes three days to reach recipient. Payment files produced in source systems and interfaced into Agresso. This is the main way the Council pays other organisations or people                        |
| CHAPS                | A more expensive and sophisticated way of paying people. Payments are guaranteed and arrive the same day. Used for high value one-off transactions (e.g. purchase of property) and treasury management activities                     |
| Lithograph           | A method whereby the Director of Finance's signature is printed onto cheques when they are produced. This is a controlled process   |
| Faster Payments      | Same-day electronic payments but with lower limits and fewer guarantees than CHAPS, but also lower cost.  |
| Account mandate      | The document that governs who is allowed to sign to authorise payments from or changes to the account   |
| Account signatory    | Someone confirmed on the bank mandate who can authorise payments from and changes to the account  |
| Group banking        | Often larger organisations have a large number of accounts and these are put into a group arrangement to reflect that they are all part of the same organisation for the purposes of interest, fees and management of the net balance |

**13. FINANCIAL, LEGAL AND OTHER IMPLICATIONS**

**13.1. Financial Implications**

As the report is commenting on work already undertaken, there are no direct financial implications arising. The report is exclusively concerned with the provision of banking services to the Council.

Alistair Cullen, Principal Accountant – Corporate Accountancy

**13.2. Legal Implications**

There are no legal implications arising from this report.

Seema Patel, Solicitor (Commercial Contract & Capital Team)

**13.3. Climate Change Implications**

There are no climate change implications from this report.

**14. Other Implications**

| <b>OTHER IMPLICATIONS</b>     | <b>YES/<br/>NO</b> | <b>Paragraph/References<br/>Within the Report</b> |
|-------------------------------|--------------------|---|
| Equal Opportunities           | N                  |   |
| Policy                        | N                  |   |
| Sustainable and Environmental | N                  |   |
| Crime and Disorder            | N                  |   |
| Human Rights Act              | N                  |   |
| Elderly/People on Low Income  | N                  |   |
| Corporate Parenting           | N                  |   |
| Health Inequalities Impact    | N                  |   |
| Risk Management               | N                  |   |

**15. Background Papers**

15.1. No applicable

**16. Consultations**

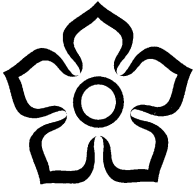
16.1. Not applicable

**17. Report Author**

17.1. Alistair Cullen – Principal Accountant (Corporate Accountancy)

0116 454 4042 [alistair.cullen@leicester.gov.uk](mailto:alistair.cullen@leicester.gov.uk)





Leicester  
City Council

WARDS AFFECTED: ALL

Audit and Risk Committee

12 August 2015

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**Regulation of Investigatory Powers Act 2000  
Bi-Annual Performance Report January 2015 – June 2015**

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## **Report of the City Barrister and Head of Standards**

### **1. Purpose of the Report**

The report advises on the performance of The Council in authorising Regulatory Investigation Powers Act (RIPA) applications, from 1<sup>st</sup> January 2015 to 30<sup>th</sup> June 2015.

### **2. Summary**

The Council applied for 0 Directed Surveillance authorisation and 0 communications data authorisations in the period above.

### **3. Recommendations**

The Committee is recommended to:

- 3.1 Receive the Report and note its contents.
- 3.2 Note the reviewed Surveillance Policy
- 3.2 Make any recommendations or comments it sees fit either to the Executive or City Barrister and Head of Standards.

### **4 Report**

- 4.1 The Council applied for 0 Directed Surveillance Authorisations and 0 communications data authorisations in the first half of 2015.
- 4.2 Any communications data authorisations will be carried out via the National Anti-Fraud Network (NAFN) system on our behalf.
- 4.3 The Council has not undergone any inspections by either the Office of the Surveillance Commissioner (OSC) or the Interception of Communications Commissioner Office (IOCCO) in this period.
- 4.4 The Council currently has 3 trained Authorising officers in place (Alison Greenhill, Kamal Adatia and Ann Branson). The Director of Environment is due to undertake Authorising Officer training.

- 4.5 A revised Code of Practice (“the Code”) for the Acquisition and Disclosure of Communications Data came into force in March 2015. Authorising Officers must be independent from operations and investigations. As a Local Authority with a small specialist criminal investigations team The Council has applied for an exception to this rule. NAFN is currently considering this application.
- 4.6 The Council’s Surveillance Policy has been reviewed and updated. The latest version is attached as Appendix A.

**5. Financial, Legal Implications**

5.1 Financial Implications

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

5.2 Legal Implications

There are no legal implications arising directly from this report, although the Council could incur legal costs should procedures not be correctly followed – Kamal Adatia, City Solicitor, ext. 37 1402.

**6. Other Implications**

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

**7. Report Author / Officer to contact:**

Lynn Wyeth, Information Governance Manager, Legal Services  
 - Ext 37 1291

28<sup>th</sup> July 2015





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**Information Assurance  
Policies and Guidance**

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**Surveillance Policy**

**1 July 2015**

**Document Version: v0.4  
Review Date: 1 July 2017**

**Owner: Information Governance Manager**

| <b>Revision Date</b> | <b>Version Number</b> | <b>Summary of Changes</b>   |
|----------------------|-----------------------|---|
| 01012013             | V0.1                  | Original draft  |
| 12022013             | V0.2                  | Suggestions for amendments by Sarah Khawaja, Legal Services   |
| 19072013             | V0.3                  | Suggestions for amendments by Linda Fletcher, Corporate Counter Fraud Team, & presentation comments via IMPB  |
| 01072015             | V0.4                  | Updated contact details, changed reporting to Audit Committee to Bi-annual, changed Strategic Directors Board to Corporate Management Team, removed IMPB. |
|                      |                       |   |
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## **1. Introduction**

- 1.1 The Human Rights Act 1998 gave effect in UK law to the rights set out in the European Convention on Human Rights (ECHR). Amongst the qualified rights is a person's right to respect for their private and family life, home and correspondence, as provided for by Article 8 of the ECHR. It is Article 8 that is most likely to be engaged when public authorities seek to obtain private information about a person by means of surveillance.
- 1.2 Part II of the Regulation of Investigatory Powers 2000 Act provides a statutory framework under which covert surveillance activity undertaken by the Council can be authorised and conducted compatibly with Article 8 and the Data Protection Act 1998.
- 1.3 The Employment Practices Code provides a framework under which surveillance activity of employees can be authorised and conducted compatibly with Article 8 and the Data Protection Act 1998.
- 1.4 Surveillance, for the purpose of the Regulation of Investigatory Powers Act 2000, includes monitoring, observing or listening to persons, their movements, conversations or other activities and communications. It may be conducted with or without the assistance of a surveillance device and includes the recording of any information obtained.
- 1.5 Surveillance is covert if, and only if, it is carried out in a manner calculated to ensure that any persons who are subject to the surveillance are unaware that it is or may be taking place.
- 1.6 Specifically, covert surveillance may be authorised under the 2000 Act if it is either intrusive or directed:
  - Intrusive surveillance is covert surveillance that is carried out in relation to anything taking place on residential premises or in any private vehicle

(and that involves the presence of an individual on the premises or in the vehicle or is carried out by a means of a surveillance device);

- Directed surveillance is covert surveillance that is not intrusive but is carried out in relation to a specific investigation or operation in such a manner as is likely to result in the obtaining of private information about any person (other than by way of an immediate response to events or circumstances such that it is not reasonably practicable to seek authorisation under the 2000 Act.

1.7 The grounds on which local authorities can rely on to authorise directed surveillance are narrower than those available to the police or security services. A local authority can only authorise directed surveillance of a member of the public if the designated person believes such surveillance is necessary and proportionate for the purpose of preventing or detecting crime.

1.8 In most cases the crime for directed surveillance must be an offence for which there is a minimum prison sentence of 6 months, and the surveillance must be authorised by a magistrate.

1.9 The Council must have a policy in place to ensure that such directed surveillance is carried out in compliance with the law and does not breach the human rights of any of the surveillance subjects, and that surveillance in or around the workplace is also carried out in compliance with the law.

## **2. Scope**

2.1 The policy applies to all surveillance carried out by The Council, both external surveillance covered by RIPA authorisations and internal covered by the Employment Practices Code

## **3. Aim**

3.1 To provide a framework for the carrying out of covert surveillance of the public and staff by the Council.

3.2 To ensure all legal obligations on the Council are met, in particular, the Human Rights Act 1998.

#### **4. Applicability to investigations carried out by or on behalf of Leicester City Council**

4.1 This policy applies to covert surveillance activities carried out by or on behalf of the Council and includes, but is not limited to, the following:

- the taking of photographs of someone in a public place or;
- the recording by video cameras of someone in a public place;
- the use of listening devices or photographic equipment in respect of activities in a house, provided the equipment is kept outside the house and the equipment gives information of less quality and detail than devices which could have been placed in the house itself
- the taking of photographs of staff in the workplace or;
- the recording by video cameras of staff in the workplace;
- acquisition of communications data e.g. email traffic, internet use logs, telephone call logs.

#### **5. Review and Maintenance**

5.1 This policy is agreed and distributed for use across the Council by the Information Governance Manager on behalf of the Corporate Management Team. It will be reviewed bi-annually by the Information Governance Manager, who will forward any recommendations for change to the Monitoring Officer for consideration and distribution.

#### **6. Legal Requirements**

6.1 The Council is obliged to comply with all relevant UK and EU information legislation. This requirement to comply is devolved to Elected Members, staff, contractors or others permitted to carry out surveillance on behalf of

the Council, who may be held personally accountable for any breaches of Article 8 of the Human Rights Act 1998 (Right to Privacy).

6.2 The acquisition of a RIPA authorisation will equip the Council with the legal protection (The RIPA 'Shield') against accusations of a breach of Article 8.

6.3 The Council shall comply with the following legislation and other legislation as appropriate:

- The Data Protection Act (1998)
- Human Rights Act (1998)
- Regulation of Investigatory Powers Act 2000
- Protection of Freedoms Act 2012

6.4 For more detailed explanations of the above see the Information Governance section of the Staff e-Handbook.

## **7. Policy Statement**

7.1 Leicester City Council supports the objectives of the Human Rights Act 1998, the Regulation of Investigatory Powers Act 2000, and the Protection of Freedoms Act 2012. This policy aims to assist staff with meeting their statutory and other obligations which covers the issues of Information Governance.

## **8. Objectives**

8.1 The policy is intended to provide a framework for carrying out surveillance activities in compliance with the law by:

- Creating and maintaining within the organisation an awareness of the Right to Privacy (Article 8, Human Rights Act 1998) as an integral part of the day to day business;

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- Ensuring that all staff are aware of and fully comply with the relevant legislation as described in policies and fully understand their own responsibilities when undertaking surveillance activities;
- Ensuring that all staff acquire the appropriate authorisations when undertaking surveillance activities;
- Storing, archiving and disposing of sensitive and confidential surveillance information in an appropriate manner.

8.2 The Council will achieve this by ensuring that:

- Regulatory and legislative requirements are met;
- RIPA and surveillance training is provided;
- All breaches of privacy, actual or suspected, are reported, investigated and any resulting necessary actions taken;
- Standards, guidance and procedures are produced to support this policy.

## 9. Responsibilities

9.1 The Chief Operating Officer, on behalf of the City Mayor and Corporate Management Team, is the Senior Information Risk Owner and has overall responsibility for Information Governance within the Council.

9.2 The Information Governance Manager is responsible for:

- Acting as the Council's RIPA Monitoring Officer
- Developing, implementing and maintaining the relevant corporate Information Governance policies, procedures and standards that underpin the effective and efficient surveillance processes;
- Support and advice to staff and managers on Surveillance;
- The production, review and maintenance of Surveillance policies and their communication to the whole Council;
- Provision of professional guidance on all matters relating to Surveillance;



- Oversight management of all privacy breaches and suspected breach investigations;
- Provision of corporate training;
- Provision, via the Intranet, of Surveillance briefing materials and, through City Learning, of on-line training;
- Management and recording of RIPA authorisations;
- Providing annual returns to national inspectors – The Office of the Surveillance Commissioner (OSC) and the Interception of Communications Commissioner's Office (IOCCO);
- Liaising with national inspection regimes, OSC, IOCCO and the CCTV commissioner to organise inspections;
- Production of an annual Information Governance Report.

9.3 The RIPA Authorising Officers will assess and authorise RIPA applications.

9.4 The Director of Finance will authorise all internal intercept requests

9.5 The Corporate Investigations Team will advise and assist in all aspects of staff investigations.

9.6 All Directors will:

- Implement this policy within their business areas;
- Ensure compliance to it by their staff;
- Sign off applications for surveillance of staff;
- Take all reasonable steps to protect the Health and Safety of investigators and where appropriate of third parties involved with investigations. This should include the carrying out of risk assessments.

## **10. Surveillance Principles**

10.1 Leicester City Council is committed to a surveillance framework that ensures:

- Requests for Authorisations are assessed to ensure the privacy of the individual is not breached unless it is necessary and proportionate to do so;
- All requests are monitored and performance indicators made available to demonstrate compliance with the legislation;
- The surveillance process is regularly audited to ensure compliance with statutory requirements and that relevant national codes of practice are followed.

## **11. Intrusive Surveillance**

11.1 Intrusive surveillance is covert surveillance carried out by an individual or a surveillance device in relation to anything taking place on residential premises or in any private vehicle. The Council is not permitted to carry out intrusive surveillance in any circumstances.

## **12. Directed Surveillance**

12.1 Surveillance is directed surveillance if the following are all true:

- it is covert, but not intrusive surveillance;
- it is conducted for the purposes of a specific investigation or operation;
- it is likely to result in the obtaining of private information about a person (whether or not one specifically identified for the purposes of the investigation or operation);
- it is conducted otherwise than by way of an immediate response to events or circumstances the nature of which is such that it would not be reasonably practicable for an authorisation under Part II of the 2000 Act to be sought.

12.2 The Council will use Directed Surveillance to acquire information covertly where it is appropriate and legal to do so.

12.3 At the start of an investigation, council officers applying for a RIPA authorisation must satisfy themselves that what they are investigating is a criminal offence and passes the criminal threshold test.

- 12.4 The appropriate Directed Surveillance application form, which will be available on the Council's intranet site, should be completed and submitted to the Authorising Officer.
- 12.5 Any officer completing the Directed Surveillance RIPA application form must contact Legal Services so that they can be authorised to attend the magistrate's court on behalf of the Council. This authorisation to act on behalf of the Council at the court remains valid as long as the applying officer is employed by the Council.
- 12.6 The applying officer must submit the signed Directed Surveillance RIPA application, once it is signed by the Authorising Officer, to the local Magistrate for approval.
- 12.7 If confidential information or matters subject to legal privilege are to be acquired, the Directed Surveillance may only be authorised by the Head of Paid Service or their deputy in their absence.
- 12.8 The Information Governance Manager will ensure there is always a minimum of three (3) trained Authorising Officers at the Council. These will be at Divisional Director level or above, and their names published on the Council's intranet.
- 12.9 Statistical returns for directed surveillance data acquired using RIPA will be submitted to the OSC by the Information Governance Manager upon request.
- 12.10 The Information Governance Manager will comply with requests from the OSC in relation to the organisation of inspections of the Council.
- 12.11 A Directed Surveillance RIPA authorisation may also be used if the crime threshold is not met but the offence is a criminal offence under:
- (i) sections 146, 147 or 147A of the Licensing Act 2003; or
  - (ii) section 7 of the Children and Young Persons Act 1933

(underage sales of alcohol and tobacco).

12.12 A RIPA authorisation is not needed when it is not reasonably practicable for an authorisation to be sought for the carrying out of the surveillance in an immediate response to events.

### **13. Covert Human Intelligence Sources**

13.1 Under the 2000 Act, a person is a CHIS if:

- a) he establishes or maintains a personal or other relationship with a person for the covert purpose of facilitating the doing of anything falling within paragraph b) or c);
- b) he covertly uses such a relationship to obtain information or to provide access to any information to another person; or
- c) he covertly discloses information obtained by the use of such a relationship or as a consequence of the existence of such a relationship.

13.2 A relationship is established or maintained for a covert purpose if and only if it is conducted in a manner that is calculated to ensure that one of the parties to the relationship is unaware of the purpose.

13.3 The Council may use a covert human intelligence source (CHIS) to acquire information covertly where it is appropriate and legal to do so. A CHIS covertly uses a relationship to obtain information or to provide access to any information to another person.

13.4 The crime threshold does not apply to the authorisation of a CHIS.

13.5 The appropriate CHIS application form, which will be available on the Council's intranet site, should be completed and submitted to the Authorising Officer.

13.6 The applying officer must submit the signed CHIS RIPA application, once it is signed by the Authorising Officer, to the local Magistrate for approval.

- 13.7 The Council will never authorise the use of a CHIS under the age of 16 to gather evidence against his parents or carers.
- 13.8 The Council will never authorise the use of a CHIS under the age of 18 without carrying out a special risk assessment in relation to any risk of physical injury or psychological distress to the source that may arise.
- 13.9 If confidential information or matters subject to legal privilege are to be acquired by the CHIS, or the CHIS is a juvenile or a vulnerable individual, the Directed Surveillance may only be authorised by the Head of Paid Service.

#### **14. Communications Data**

- 14.1 Communications data is generated, held or obtained in the provision, delivery and maintenance of communications services, those being postal services or telecommunications services. The term 'communications data' embraces the 'who', 'when' and 'where' of a communication but not the content, not what was said or written. It includes the manner in which, and by what method, a person or machine communicates with another person or machine external to the Council.
- 14.2 The crime threshold will apply only to the authorisation of directed surveillance by local authorities under RIPA, not to the authorisation of local authority use of CHIS.
- 14.3 The Council will appoint a Single Point of Contact (SPoC) responsible for the acquisition of external communications data using RIPA. If the National Anti-Fraud Network (NAFN) SPoC system is not used, a trained and accredited member of Council staff must undertake this role.
- 14.4 If the National Anti-Fraud Network (NAFN) SPoC system is not used, the appropriate application form, which will be available on the Council's

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intranet site, should be completed and submitted to the Authorising Officer.

14.5 Statistical returns for communications data acquired using RIPA will be submitted to the IOCCO by the Information Governance Manager upon request.

14.6 The Information Governance Manager will comply with requests from the IOCCO in relation to the organisation of inspections of the Council.

### **15. Reviews, Renewals and Cancellations of RIPA Authorisations**

15.1 The applying officer must review the authorisation on a monthly basis to decide if the operation needs to continue.

15.2 RIPA authorisations must be cancelled as soon as they are no longer required. Cancellations must be authorised by the Council's Authorising Officer.

15.3 RIPA authorisations are only valid for 3 months. If a renewal is required, it must be applied for prior to the three month deadline. Renewals must be authorised by the Council's Authorising Officer and the Magistrate.

### **16. Reporting Errors in RIPA Authorisations**

16.1 All errors in RIPA authorisations must be reported immediately by the applying manager or Authorising Officer to the Information Governance Manager..

### **17. RIPA requests from Third Parties**

17.1 Requests from third parties to use Council equipment, facilities or buildings quoting RIPA authorisations must be made in writing, including a copy of the RIPA authorisation (redacted if necessary) and referred to the Information Governance Manager, or in the case of CCTV, the CCTV Manager.

### **18. CCTV**

- 18.1 The Council operates CCTV systems, the use of which is subject to the national CCTV code of practice, as adopted by the Council.
- 18.2 Where CCTV cameras are used covertly as part of an operation to observe a known individual or group, an appropriate authorisation must be applied for.
- 18.3 The Council will keep its CCTV protocol up to date.
- 18.4 The Information Governance Manager will comply with requests from the CCTV Commissioner in relation to the organisation of inspections of the Council.
- 18.5 Any statistical returns required by the CCTV Commissioner will be supplied to him by the Information Governance Manager upon request

## **19. Surveillance of Employees**

- 19.1 The Council may use Surveillance and the acquisition of internal communications data where there are grounds to do so. Procedures must be followed in relation to its staff where it is appropriate and legal to do so to protect the Council against claims of a breach of Article 8. A RIPA authorisation is not available in these circumstances. It is good practice to apply the same process however to address Article 8 considerations.
- 19.2 All managers must consider the impact on the human rights of the staff member(s) under formal surveillance and complete one of the appropriate forms which can be found on the Council's intranet.
- 19.3 The Council will follow the ICO's 'Employment Practices Code' to ensure employees' personal information is respected and properly protected under the Data Protection Act 1998.
- 19.4 For the acquisition of communications data (including but not limited to cryptag logs, email accounts, computer access, internet use logs and telephone call logs) managers must complete the 'Interception of Communications Form' which can be found on the Council's intranet and submit it to the Corporate Investigations Team.
- 19.5 For all other directed surveillance of staff, managers must complete the 'Non-RIPA Surveillance Form' which can be found on the Council's

intranet and submit it to the Information Governance Manager once it has been signed by the relevant Divisional Director.

## **20. Storage and Destruction of Surveillance Data**

- 20.1 The Information Governance Manager will store all paper copies of the signed authorisations centrally in a fireproof and secure manner.
- 20.2 Signed authorisations will be scanned, and electronic copies will be held securely on the Council's shared drive as back-ups.
- 20.3 All paper copies of the signed authorisations, and electronic copies, will be retained for three years and then disposed of securely, unless it is believed that the records could be relevant to pending or future criminal proceedings, where they must be retained for a suitable further period, commensurate to any subsequent review.

## **21. Compliance with the Legislation**

- 21.1 The Council recognises the need to make the contents of this Policy known and ensure compliance by every employee.
- 21.2 The Information Governance Manager will notify relevant staff of changes to RIPA and surveillance legislation, how these changes will affect them, when they will occur and what is needed to stay within the law.
- 21.3 Elected members will receive a bi-annual RIPA report via the Audit and Risk Committee.
- 21.4 The Council also recognises the need to make their policies known and accessible to the public. This policy will be published on the Council's website.
- 21.5 RIPA statistics, suitably redacted as to not reveal specific operations, will be published on the Council's website annually.



21.6 Leicester City Council expects all employees to comply fully with this policy, other information legislation and the Council's Employee Handbook. Disciplinary action may be taken against any Council employee who knowingly breaches any instructions contained in, or following from this policy.

## **22. Complaints**

22.1 Complaints relating to any surveillance matters must be made in writing and addressed to:

Information Governance Manager

Legal Services

Leicester City Council

16 New Walk

Leicester

LE1 6UB

[info.requests@leicester.gov.uk](mailto:info.requests@leicester.gov.uk)

22.2 If the complainant is still unhappy following the Information Governance Manager's response they must be advised to write to:

The Investigatory Powers Tribunal

PO Box 33220

London

SW1H 9ZQ.

Tel. 0207 035 3711

## **23 Internal Charging**

23.1 Costs incurred by the Council as a result of cases which are progressed to the Investigatory Powers Tribunal or the courts, will be charged to the relevant service area.

## **24 Further Guidance**

- 24.1 Further guidance entitled 'How to Carry Out Surveillance' can be found on the Council's intranet site.



Leicester  
City Council

**WARDS AFFECTED**  
**All**

**FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:**  
**Audit & Risk Committee**

**31<sup>st</sup> July 2015**

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## **Counter-Fraud Annual Report 2014 -15**

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**Joint Report of the Director of Finance, the Director of Environmental and Enforcement Services.**

### **1. Purpose of Report**

- 1.1. Responsibility for the City Council's counter-fraud work is shared between the Corporate Investigations Team and the Revenues & Benefits Investigations Team both within Financial Services the Trading Standards Team within Environmental Services.
- 1.2. The report, which is attached, provides information on counter-fraud activities during 2014 -15.

### **2. Recommendations**

The Committee is recommended to:

- 2.1. Receive the report
- 2.2. Make any recommendations it sees fit either to the Executive or the Director of Finance, Director of Environmental Services.

### **3. Summary**

- 3.1. The annual report includes information on reports issued, the main influences on the level and standard of performance during 2014-15 and the key priorities for counter-fraud work in 2014-15. It does not include comment on the Council's Anti-Fraud, Bribery and Corruption Policy which was updated earlier this year.
- 3.2. The key issues identified within the report are:
- 3.3. The continued emergence of new external fraud threats to the Authority, in particular relating to cheque frauds
- 3.4. Continued success by the Revenues & Benefits Investigation Team in achieving high numbers of sanctions
- 3.5. The protection of vulnerable citizens through the work done by the Trading Standards Service
- 3.6. The success of the Tenancy Fraud Team in recovering Council properties

- 3.7. Future plans of the Counter-Fraud Teams.
- 3.8. To deliver effective counter-fraud activities requires significant investment both from managers and from staff generally. Professional development, which is a key component of our counter-fraud work and strategy, must be relevant and topical so requires constant refreshing. New and emerging threats by increasingly sophisticated fraudsters and the opportunities for on line fraud require an equally sophisticated and vigilant response from the Authority. In addition, support from all parts of the Council is essential to ensuring the effectiveness of this work.
- 3.9. As part of its work, the Corporate Investigations Team investigates suspected financial irregularities and makes recommendations to reduce the risk of further losses and improve performance, efficiency, effectiveness and economy in the use of resources by the Council.
- 3.10. The Revenues & Benefits Investigation Team specifically investigates suspected Housing Benefit and Council Tax Fraud and when appropriate works closely with the Department for Work and Pensions to sanction offenders through prosecution, financial penalties and cautions.
- 3.11. The Trading Standards Service is responsible for fair trading, consumer credit, product safety, food standards, weights & measures and age restricted products.

#### **4. Report**

- 4.1. See the Counter-Fraud Review of the Year 2014-15, attached.

### **5. FINANCIAL, LEGAL AND OTHER IMPLICATIONS**

#### **5.1. Financial Implications**

Fraud can cause the Council significant loss and activity to prevent and detect fraud is a clear financial investment. Whilst it is impossible to quantify in any reliable way the full implications across the Council, sanctions were issued in relation to £737,755.65 of overpaid Housing Benefit and Council Tax Benefit.

**Colin Sharpe, Head of Finance.**

#### **5.2. Legal Implications**

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

**Kamal Adatia, City Barrister & Head of Standards**

#### **5.3. Climate Change Implications**

There are no significant climate change implications arising from the attached report.

**Louise Buckley, Senior Environmental Consultant .**

## 6. Other Implications

| OTHER IMPLICATIONS                                  | YES/<br>NO | Paragraph/References<br>Within the Report  |
|---|------------|--|
| Equal Opportunities<br>Policy                       | No         |  |
| Sustainable and Environmental<br>Crime and Disorder | No         |  |
| Human Rights Act                                    | Yes        | This report is concerned with fraud and corruption, both of which are criminal offences. |
| Elderly/People on Low Income                        | No         |  |
| Corporate Parenting                                 | No         |  |
| Health Inequalities Impact                          | No         |  |

## 7. Background Papers – Local Government Act 1972

### 7.1. Files held by Revenues and Benefits and Trading Standards

Leicester City Council's Anti-Fraud and Corruption Policy and Strategy

Leicester City Council's Finance Procedure Rules

Leicester City Council's Constitution

Leicester City Council's Code of Conduct for Behaviour at Work

Leicester City Council's Information Security Policy Statement

Leicester City Council's Prosecutions Policy

Leicester City Council's Investigators Code of Conduct

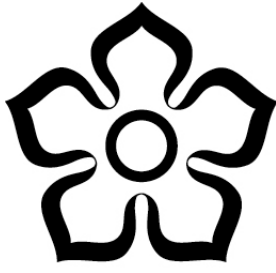
Public Bodies Corrupt Practices Act 1889

Chartered Institute of Public Finance & Accountancy (CIPFA) publication  
*Managing The Risk of Fraud*

The Audit Commission publication *Protecting The Public Purse*

## 8. Report Author

### 8.1. Stuart Limb, Corporate Investigations Manager



Leicester  
City Council

**COUNTER-FRAUD  
REVIEW OF THE YEAR  
2014-15**

## **COUNTER-FRAUD REVIEW OF THE YEAR 2014-15**

### **1. Introduction**

- 1.1 This is a report to the Audit & Risk Committee on the work delivered by Leicester City Council's Corporate Investigations Team, Revenues & Benefits Investigations Team and Trading Standards Service during the year 2014-15.
- 1.2 The Corporate Investigations Team (CIT) is an independent appraisal function, established by the Council to investigate suspected financial irregularities involving matters other than Housing Benefit and Council Tax Benefit, conduct proactive fraud-searching exercises and improve fraud awareness amongst employees.
- 1.3 The Revenues & Benefits Investigations Team provides direct support for the investigation, detection, deterrence and prosecution of fraud related to Housing Benefit and Council Tax Benefit.
- 1.4 The Trading Standards Service is responsible for fair trading, consumer credit, product safety, weights & measures and age-restricted products. Food standards in the City is regulated by the Food Safety Team.
- 1.5 Trading Standards Service has been re-configured and the trading standards team now consists of 1 manager, an intel lead officer and 7 investigators (includes 1 term time only and 1 @80% FTE). The team is investigates breaches of consumer protection law and take legal action including injunctions, prosecutions and asset recovery to punish and deter illegal trading. Information and advice to the public on consumer problems is provided nationally by Citizens Advice and regulatory support and training to businesses by the Business Regulatory Support Team on a chargeable basis.
- 1.6 To facilitate their work, Corporate Investigations Officers have access to any relevant City Council information, data and records they require in order to carry out their duties. These rights of access are contained in the City Council's Finance Procedure Rules and extend to relevant information held by partner organisations and direct service providers.
- 1.7 Trading Standards Officers provide information and advice to businesses on regulations; undertake inspections of premises, products, contractual documentation and marketing; investigate possible breaches of the law and take legal action including injunctions, prosecutions and asset recovery to punish and deter illegal trading. Information and advice to the public on consumer problems is provided by Citizens Advice.

### **2 The Year in Summary**

- 2.1 The Council continues to benefit from having teams of fully qualified and experienced Accredited Counter-Fraud Specialists whose skill and ability continues to protect Leicester City Council and its residents from fraud and loss.

## **Corporate Investigations Team**

- 2.2 Following the completion of the Corporate Fraud Review which was concluded in February 2015 the team has been expanded and restructured. The team now comprises of a new Corporate Investigations Manager (CIM), a Financial Investigator, a Senior Corporate Investigations Officer, five Corporate Investigations Officers and two part time clerical support officers who between them work 33 hours per week.
- 2.3 The authority were successful in securing funding from the Department for Communities and Local Government (DCLG) to lead an intelligence hub for all local authorities in Leicester, Leicestershire and Rutland. This project will result in the recruitment of four temporary Corporate Investigations Officers on two year fixed term contracts utilizing the funding received. This recruitment exercise is underway and the procurement of the software has been concluded successfully.
- 2.4 The Corporate Investigations Team receive allegations about and investigate a wide variety of suspected irregularities including cheque manipulation and counterfeiting, thefts, flexible working hours abuse, corruption, contract and procurement irregularities, third party fraud including care home irregularities and grant aided organizations and misuse of City Council vehicles.
- 2.5 External threats continue to pose a risk to the Council, in particular counterfeit and forged cheques.
- 2.6 Whilst it is sometimes possible to quantify losses incurred by the Council as a result of financial irregularities there are many instances where it is impossible to estimate the cost. For example where the procurement of goods or services has not been made in accordance with Council procedures and best value cannot be demonstrated or where it is not possible to determine how long an irregularity has been going on for. The Corporate Investigations Team will be making every effort to estimate a financial value on cases for future reports.
- 2.7 The team makes unannounced visits to Council premises to secure evidence including data held on digital devices. Team members undertake surveillance and interview employees, members of the public and contractors. They liaise with the UK Border Agency, the Council's bank, the police and other external agencies involved in fraud prevention.
- 2.8 The team has investigated a variety of frauds involving employees, contractors and grant aided organizations. Much of the work is complex and involves substantial sums of money.
- 2.9 The CIM considers management requests for access to employees' emails, Internet access, computers and the building access system (which gives staff access to council buildings) information before they are authorized by the Director of Finance. During 2014-15, 56 such requests for information were processed compared to 63 in the previous year. The majority of requests were for information from more than one system and some requests were for information relating to a number of users.



- 2.10 The CIM is also the City Council's Key Contact for the Audit Commission's National Fraud Initiative (NFI) data matching exercise and coordinates the Council's response to the Audit Commission's annual on line fraud survey.
- 2.11 Matches identified through the Audit Commission's 2014/15 National Fraud Initiative (NFI) exercise continue to be investigated by officers across the Council and notice has been received of the next exercise.
- 2.12 Fraud awareness training has been delivered to 83 employees compared to 114 the previous year. The team also posts fraud warnings on Interface and the schools Extranet. These are especially useful to alert employees to new and emerging threats.
- 2.13 The Corporate Investigations Team will be working with the Housing Department to tackle Tenancy Fraud effectively.

### **Revenues & Benefits Investigations Team**

- 2.14 As mentioned earlier in the report the Corporate Fraud Review has been completed. This has had a direct impact on the resources of the team. The previous Investigations Manager has been appointed to the role of Corporate Investigations Manager and 3 Investigations Officers have been appointed to the roles on the Corporate Investigations Team. This is ahead of the transfer of benefit fraud to the Department for Work and Pensions in March 2016.
- 2.15 The team now consists of an Interim Investigations Manager and 5.14 full time equivalent Investigation Officers. Despite reduced staffing resources, the Revenues & Benefits Investigations Team continued to tackle benefit fraud effectively. In recognition of the decrease in resources the annual sanctions target has been reduced.
- 2.16 During 2014-15 the team issued 141 sanctions which related to £737,755.65 of fraudulently claimed Housing Benefit or Council Tax Benefit. Although this sum is large, it represents less than 1% of the Council's annual expenditure on Housing Benefit and Council Tax Benefit.
- 2.17 After the staff have been transferred to the DWP the duty to investigate benefit fraud will transfer to the DWP. The Corporate Investigations Team will investigate Council Tax Reduction as this is not a benefit and therefore is not in scope of the Single Fraud Investigation Service.
- 2.18 Annual performance statistics for the Revenues and Benefits Team are attached at Appendix 1.

### **Trading Standards Service**

- 2.19 Trading Standards prioritised the following threats to the public in 2014-15:
- Doorstep crime targeting vulnerable citizens
  - Scams

- Counterfeiting, in particular, the supply of illicit tobacco
- Sale of tobacco and alcohol to children
- Car safety and related fraud

2.20 Trading Standards manages its activity in line with the National intelligence Model and undertakes a selection process to determine which cases should be resourced and investigated. The aim is to target problems/individuals that are, or are likely to, cause high detriment to local citizens and reputable businesses. The capacity to take formal enforcement action on a high volume of complex cases is restricted and some investigations have to be postponed to await the availability of resources

2.21 A wide range of frauds have been investigated. Often an investigation that starts looking at what appears to be an isolated breach of consumer protection law uncovers a more extensive fraud.

2.22 As a result of the targeting of our investigative resources, sharing intelligence and increased joint working with partner agencies such as neighbouring Trading Standards Services and Police we have found ourselves to be dealing increasingly with organised crime groups rather than rogue individuals.

2.23 During 2014-15 the Trading Standards Team has been involved in 7 major operations. Some of these operations have been supported by the police and in some cases by what was formerly called the United Kingdom Border Agency.

2.24 Nineteen interviews under caution in fraud related investigations were undertaken

2.25 To ascertain whether fraudulent activity was being undertaken and take possession of evidence five Magistrates Warrants were obtained and executed. Following the execution of a warrant and seizure of material there is normally a forensic examination of computers and mobile phones to identify evidence of wrong doing and any other associates.

2.26 On one occasion this year Trading Standards responded to urgent police request for assistance where the police had uncovered Trading Standards breaches during the course of their duties. This incident related to a suspected clothing counterfeit operation. We have also delivered a rapid response to a doorstep crime incident.

2.27 In Feb 2015 we successfully made a referral of one of our fraudulent car traders to the East Midlands Trading Standards scambusters team due to the size/scale of the investigation and potential detriment which was not limited to local citizens but had victims nationwide. We have seconded an officer to assist with this investigation.

2.28 Trading Standards has continued to prioritise the protection of vulnerable citizens from doorstep crime. In early 2015 three separate individuals were prosecuted by LCC for fraud associated in the carrying out of building/home maintenance contracts to local residents.

### 3. Review of Performance

#### Corporate Investigations Team

3.1 The Corporate Investigations Team considers all cases of non-Housing Benefit suspected fraud and irregularity referred to it. Referrals are scored according to the seriousness of the allegation. In some cases an investigation is undertaken, in others, managers are given advice and assistance to enable them to take appropriate action, not only to deal with the matter of concern but also to help prevent recurrences.

3.2 The team has a number of performance targets which are reflected in the table below.

Table 1: Caseload statistics for the Corporate Investigations Team 2014-15

| <b>File Holdings</b> |   | <b>Investigations</b> | <b>Advice &amp; Assistance</b> | <b>Total</b> |
|----------------------|---|-----------------------|--------------------------------|--------------|
| 1                    | Cases brought forward at 01/04/2014                                 | 18                    | 12                             | 31           |
| 2                    | New cases in 2014- 2015   | 23                    | 47                             | 70           |
| 3                    | Cases carried forward at 01/04/2015 (including Advice & Assistance) | 18                    | 12                             | 21           |

#### Performance Indicators

|   |  |    |
|---|--|----|
| 4 | Investigations commenced in less than 10 days (including advice & assistance)    | 65 |
| 5 | Cases open greater than 10 months at 31/03/2015                                  | 4  |
| 6 | Total open cases at 31/03/2015 (including advice & assistance)                   | 21 |
| 7 | Total cases closed (including advice & assistance)                               | 80 |
| 8 | Cases registered and closed within 6 months of the commencement of investigation | 58 |

|    |   | <b>Target</b> | <b>Actual</b> |
|----|---|---------------|---------------|
| 9  | Percentage investigations commenced within 10 days                | 90%           | 93%           |
| 10 | Reports issued within 20 days of closure                          | 90%           | 100%          |
| 11 | Investigations closed within 6 months of investigation commencing | 100%          | 73%           |
| 12 | Files open more than 10 months old at year end                    | 0%            | 19%           |

- 3.3 The number of referrals received last year and the team has reduced the number of cases carried forward to the next financial year from 47 to 24.
- 3.4 The team continues to work closely with management and in many cases issues that have arisen as a result of the investigation are addressed before the investigation is concluded. This approach means that management is more actively involved and that the Corporate Investigations are able to deal with more cases.

### **Revenues & Benefits Investigations Team**

- 3.5 The team secured a total of 141 sanctions during the financial year. The sanctions, against those found to have committed benefit fraud offences, consisted of 20 Formal Cautions (Warnings), 52 Administrative Penalties (Fines) and 69 Prosecutions. (See Table 1 below for the last four years' performance statistics).
- 3.6 The agreement that the Authority has with the Department for Work and Pensions (DWP) that joint investigations led by the Council are prosecuted via our own Legal Services Section and those investigations led by the DWP are prosecuted via The Crown Prosecution Service (CPS) continues to work well. This arrangement allows greater control over the time taken to conclude proceedings and is in keeping with the true spirit of joint working.
- 3.7 There are currently no national targets for benefit fraud investigations. This has led some local authorities to reduce the resources applied to benefit fraud. However, the Revenues & Benefits Section recognises the need for a fully staffed Investigations Team.
- 3.9 The Council continues to benefit from successful prosecutions being reported in the local media on a regular basis. Publicity raises awareness within the community and hopefully acts as a deterrent to would be fraudsters.

## **4. The Year Ahead**

### **4.1 Major objectives for the Corporate Investigations Team for 2015-16 are:**

- To support the Council in its efforts to deal with fraud and irregularity whether internally focused or from customers or other third parties against the Council.
- To investigate and prosecute where appropriate fraud offences and fully utilize the Proceeds of Crime Act to recover losses and ill gotten gains.
- To undertake further professional training courses for the Investigators to reinforce their accredited professional qualifications.
- To support the Director of Finance by identifying high fraud risk areas and working with management to mitigate those risks.

- To raise awareness, particularly at schools, of the increase in cheque irregularities
- To manage the 2014/15 National Fraud Initiative exercise, ensuring that all data sets are considered and appropriate action taken where irregularities have occurred.
- To continue to work in conjunction with Housing Services to review the Authority's housing stock of approximately 22,000 properties in an effort to identify potential tenancy fraud.
- To provide advice and assistance to managers in those cases where an investigation is not undertaken.

#### **4.2 Major objectives for the Revenues & Benefits Investigations Team for 2015-16 are:**

- To continue to uncover and take action against those found to be committing benefit fraud.
- To ensure that appropriate sanctions are imposed in line with the Council's Prosecution Policy.
- To participate in the NFI exercise in relation to benefit matches and raise investigations on appropriate cases.
- To identify, through the use of data matching, potential fraudulent claims for Single Person Discount and investigate accordingly.
- To take all necessary steps ahead of the implementation of the Single Fraud Investigation Service.

#### **4. The Year Ahead**

##### **4.3 Enforcement priorities for the Trading Standards Service for 2015-16 are to tackle the following:**

- Doorstep crime targeting vulnerable citizens including rapid response to incidents
- Facilitating the setting up No Cold Calling Zones
- Tackling scams – responding to referrals from the national scams hub
- Counterfeiting, in particular, the supply of illicit tobacco and counterfeit goods with significant health & safety risks
- Sale of tobacco and alcohol to children
- Car safety and related fraud
- Illegal money lending

Capacity building priorities include:

- Giving the public a 'scams reporting' functionality in the Love Leicester App.
- Introducing an IT case management system that can accommodate complex investigations and facilitate the production of case files/bundles for Legal Services
- Establishing referral and joint working arrangements with the Police for regional/national level serious operating from Leicester City
- Establishing referral arrangements with Action Fraud Intelligence Hub.

## **5. Acknowledgment**

5.1 The Director of Finance acknowledges the efforts of all members of the Corporate Investigations Team, Revenues & Benefits Investigations Team, Trading Standards and the help, co-operation and support of Members and officers of the City Council.

Caroline Jackson  
Head of Revenues and Customer Support

Roman Leszczyszyn  
Head of Regulatory Service

## Appendix 1

| Awaiting Registration & Scoring    |    |
|------------------------------------|----|
| HB referrals awaiting registration | 29 |

PLEASE COMPLETE/CHECK ALL CELLS IN : GREY  
 Monthly HB figures  
 Figures in 'BLUE' are formulas (DO NOT OVERTYPE)

| Registered | This month | YTD | Allocated to IO's | YTD | Screened Out | YTD | Overloaded | YTD |
|------------|------------|-----|-------------------|-----|--------------|-----|------------|-----|
| HB files   | 36         | 729 | 14                | 340 | 16           | 376 | 0          | 4   |

| Time taken to Allocate & Commence investigations      | This month | YTD | cases > than 10 days | YTD |
|---|------------|-----|----------------------|-----|
| Registered and allocated within 10 days               | 33         | 716 | 2                    | 19  |
| Investigations commenced within 10 days of allocation | 11         | 243 | 2                    | 59  |

| Closed - (exc. S/O & O/L) | This month | YTD |
|---------------------------|------------|-----|
| HB                        | 40         | 521 |

| Closed - (inc. S/O & O/L) | This month | YTD | Inv's closed >6 mths old |
|---------------------------|------------|-----|--------------------------|
| HB                        | 56         | 904 | 21                       |

| Cases C/F | Prev. Mth | This Mth |
|-----------|-----------|----------|
| HB        | 239       | 224      |

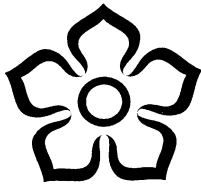
| Investigations In Progress (exc. Sanctions) - | This Month | > 6 mths old |
|---|------------|--------------|
| HB  | 224        | 105          |

| Sanctions   | Prev. Mth | This Mth | YTD - Total |
|---|-----------|----------|-------------|
| Cautions Accepted                                 | 1         | 1        | 20          |
| Administrative Penalties Accepted                 | 8         | 11       | 52          |
| Prosecutions - Successful (Guilty)                | 3         | 5        | 69          |
| Total Sanctions                                   | 12        | 17       | 141         |
| Referred to Solicitors for prosecution this month | 7         | 6        | N/A         |
| <b>Total files with Solicitors</b>                | 58        | 58       | N/A         |

47







Leicester  
City Council

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

**AUDIT & RISK COMMITTEE**

**12<sup>th</sup> August 2015**

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## **STATUTORY STATEMENT OF ACCOUNTS 2014/15**

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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 2014/15 year on or before the 29<sup>th</sup> September 2015. 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 2015 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 2014/15 financial year.

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. The level of uncommitted general balances at 31<sup>st</sup> March 2015 was £49m

- 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 outlined above

- 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 2014/15 Balance Sheet shows the Council has net assets of £1.02bn

- 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 2015. 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**

Revenue and Capital Outturn reports.  
Closure of Accounts working papers – held in the Accountancy Section

**8. CONSULTATIONS**

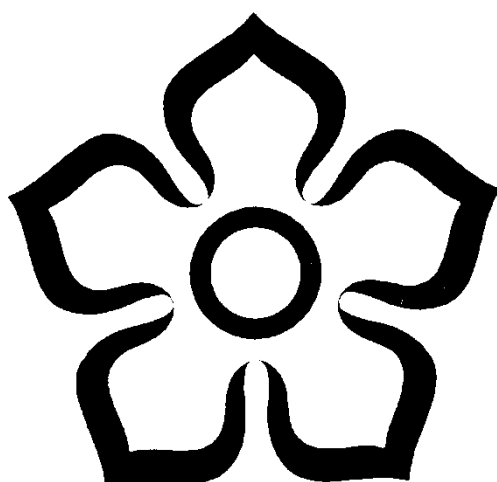
Not applicable

**9. AUTHOR**

Alistair Cullen  
Principal Accountant  
37 4042

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





**Leicester**  
City Council

# **Unaudited Statement of Accounts**

**Year ended 31<sup>st</sup> March 2015**



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## FOREWORD

---

### 1. Introduction

The statement of accounts presents the City Council's financial performance for the year 2014/15. 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 2014/15 of £153.4m. 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 an increase of £23.1m, in line with the Council's budget strategy outlined in section 4 below.

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 £12.6m. However after adjustments to reflect statutory requirements, the account generated a year-end surplus of £1.6m.

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 £3.75m.

### 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. It is difficult to estimate the amount of grant that the Council has lost, due to changes in the system of funding local government. It is estimated, however, that government funding has fallen by £65m per year between 2010/11 and 2014/15, with further reductions expected.

The budget approved for 2014/15 noted that the Council had already approved plans to reduce expenditure by £85m per year, and estimated that a further £60m would be required by 2017/18 if the current trajectory of cuts continues.

The Council is addressing the need to make cuts by a programme of spending reviews, which are seeking savings of £35m per annum from a review of 18 service areas. This approach is complemented by a 'managed reserves strategy' whereby reserves have been consciously increased to buy time to implement future reductions in a planned way.

Given the context, it is pleasing that most services spent within budget in 2014/15 with only Adult Social Care reporting a £2.7m overspend. This overspend was met from contingencies.

Capital spending of £184m was incurred in 2014/15, an increase on the £161m in 2013/14. A substantial element (£56m) was spent on the Council's "Building Schools for the Future" (BSF) programme to modernise all the city's secondary schools. Construction work on this programme is now nearing completion. Other significant capital schemes included Jubilee Square and Cathedral Gardens (which were completed in time for the reinterment of King Richard III), redevelopment of the Haymarket Bus Station and improvements to Leicester Market including a new food hall, which opened during 2014/15. Substantial sums also continue to be spent on the modernisation of council tenants' homes and estates.

The Council had financial investments amounting to £165m at the end of the year. These balances continue to grow: the Government now supports all new capital schemes by grant and Government rules disincentivise the use of Minimum Revenue Provision to repay actual debt. Whilst financial institutions remain more secure than they have been following the economic crash of 2008, governments are seeking to ensure that taxpayers are never again a lender of last resort. New "bail in" rules mean that corporate investors, such as the Council, risk regulatory action converting their cash to equity investments if funds are held in banks with inadequate capital. This is forcing the Council to reconsider its investment policy and diversify to spread risk. No new borrowing took place in 2014/15.

## **5. Reserves**

The Council's uncommitted reserves stood at £49m on 31<sup>st</sup> March 2015, which is a significant increase on the £25.9m held at the end of 2013/14. This is the consequence of the managed reserves strategy outlined above.

The Council holds "earmarked" reserves for specific purposes. These include reserves ringfenced by law, such as schools balances (£18.5m) 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 2015/16 as the Building Schools for the Future programme is completed and investment is made in transforming services to meet reduced ongoing budgets.

## **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 (£764m). 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 2017/18 following the next actuarial valuation of the fund. Full accounts of the Leicestershire scheme can be found at <http://www.leics.gov.uk/pensions.htm>

## **7. Future issues**

2015/16 and later years will see the continuation of substantial government grant cuts. The Council's main Revenue Support Grant will fall from £109m in 2014/15 to £78m in 2015/16. The new government has made clear that cuts to spending will continue, with £13bn expected from unprotected services (including local government) by 2017/18.

The Council is unlikely to need to borrow money for the foreseeable future and investment balances will continue unless penalties for redeeming historic debt from the Public Works Loans Board are removed. The Council will nonetheless seek opportunities to redeem debt. The key issue for treasury strategy will be the investment of cash balances in an uncertain environment and a changing regulatory framework.

## **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 at the meeting approving the audited accounts in September 2015**

### **The Director of Finance's (section 151 officer) Responsibilities**

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

In preparing this Statement of Accounts, the Director of Finance has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the local authority Code.
- 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 2015.

Signed:



**Alison Greenhill CPFA, Director of Finance**

**Date: 30<sup>th</sup> June 2015**

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

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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.

| 2014/15   | General Fund Balance | Ear-marked Reserves | Housing Revenue Account | Major Repairs Reserve | Capital Receipts Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|---|----------------------|---------------------|-------------------------|-----------------------|--------------------------|--------------------------|-----------------------|-------------------|--------------------------|
|   | £000                 | £000                | £000                    | £000                  | £000                     | £000                     | £000                  | £000              | £000                     |
| <b>Balance at 31st March 2014 brought forward</b>   | (25,940)             | (152,494)           | (14,469)                | (1,200)               | (29,046)                 | (57,538)                 | (280,687)             | (888,630)         | (1,169,317)              |
| <b>Movement in reserves during 2014/15</b><br>(Surplus) or deficit on provision of services | 44,918               |                     | (12,680)                |                       |                          |                          | 32,238                |                   | 32,238                   |
| Other Comprehensive Expenditure and Income  |                      |                     |                         |                       |                          |                          | -                     | 121,163           | 121,163                  |
| <b>Total Comprehensive Expenditure and Income</b>   | <b>44,918</b>        | -                   | <b>(12,680)</b>         | -                     | -                        | -                        | <b>32,238</b>         | <b>121,163</b>    | <b>153,401</b>           |
| Adjustments between accounting basis & Funding basis under regulation                       | (67,557)             | -                   | 11,041                  | -                     | 8,585                    | 29                       | <b>(47,902)</b>       | 47,902            | -                        |
| <b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>                       | <b>(22,639)</b>      | -                   | <b>(1,639)</b>          | -                     | <b>8,585</b>             | <b>29</b>                | <b>(15,664)</b>       | <b>169,065</b>    | <b>153,401</b>           |
| Transfers to/(from) Earmarked Reserves  | (452)                | 452                 | -                       | -                     | -                        | -                        | -                     | -                 | -                        |
| <b>(Increase)/Decrease in year</b>  | <b>(23,091)</b>      | <b>452</b>          | <b>(1,639)</b>          | -                     | <b>8,585</b>             | <b>29</b>                | <b>(15,664)</b>       | <b>169,065</b>    | <b>153,401</b>           |
| <b>Balance at 31st March 2015 carried forward</b>   | <b>(49,031)</b>      | <b>(152,042)</b>    | <b>(16,108)</b>         | <b>(1,200)</b>        | <b>(20,461)</b>          | <b>(57,509)</b>          | <b>(296,351)</b>      | <b>(719,565)</b>  | <b>(1,015,916)</b>       |



| 2013/14   | 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>   | <b>(24,163)</b>      | <b>(154,261)</b>    | <b>(7,744)</b>          | <b>(1,200)</b>        | <b>(20,119)</b>          | <b>-</b>                 | <b>(207,487)</b>      | <b>(985,613)</b>  | <b>(1,193,100)</b>       |
| <b>Movement in reserves during 2013/14</b><br>(Surplus) or deficit on provision of services | (61,469)             | -                   | (19,616)                | -                     | -                        | -                        | <b>(81,085)</b>       | -                 | <b>(81,085)</b>          |
| Other Comprehensive Expenditure and Income  | -                    | -                   | -                       | -                     | -                        | -                        | -                     | 104,868           | <b>104,868</b>           |
| <b>Total Comprehensive Expenditure and Income</b>   | <b>(61,469)</b>      | <b>-</b>            | <b>(19,616)</b>         | <b>-</b>              | <b>-</b>                 | <b>-</b>                 | <b>(81,085)</b>       | <b>104,868</b>    | <b>23,783</b>            |
| Adjustments between accounting basis & Funding basis under regulation                       | 61,459               | -                   | 12,891                  | -                     | (8,927)                  | (57,538)                 | <b>7,885</b>          | (7,885)           | -                        |
| <b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>                       | <b>(10)</b>          | <b>-</b>            | <b>(6,725)</b>          | <b>-</b>              | <b>(8,927)</b>           | <b>(57,538)</b>          | <b>(73,200)</b>       | <b>96,983</b>     | <b>23,783</b>            |
| Transfers to/(from) Earmarked Reserves  | (1,767)              | 1,767               | -                       | -                     | -                        | -                        | -                     | -                 | -                        |
| <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>96,983</b>     | <b>23,783</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>(888,630)</b>  | <b>(1,169,317)</b>       |

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

| 2013/14           |                  |                 |  | 2014/15   |                   |                  |                 |
|-------------------|------------------|-----------------|--|-----------|-------------------|------------------|-----------------|
| Gross Exp<br>£000 | Income<br>£000   | Net Exp<br>£000 |  | Note      | Gross Exp<br>£000 | Income<br>£000   | Net Exp<br>£000 |
| 7,594             | (5,674)          | 1,920           | Central Services to the Public   |           | 8,638             | (5,833)          | 2,805           |
| 43,587            | (11,703)         | 31,884          | Cultural and Related Services  |           | 40,267            | (11,850)         | 28,417          |
| 30,954            | (10,202)         | 20,752          | Environmental and Regulatory Services  |           | 28,823            | (10,925)         | 17,898          |
| 14,171            | (12,424)         | 1,747           | Planning and Development Services  |           | 41,324            | (28,699)         | 12,625          |
| 417,993           | (327,146)        | 90,847          | Education and Children's Services  |           | 486,073           | (348,776)        | 137,297         |
| 37,582            | (11,774)         | 25,808          | Highways and Transport Services  |           | 42,957            | (11,194)         | 31,763          |
| 62,193            | (89,867)         | (27,674)        | Local Authority Housing (HRA)  |           | 65,463            | (89,191)         | (23,728)        |
| 158,769           | (146,886)        | 11,883          | Other Housing Services   |           | 154,921           | (141,757)        | 13,164          |
| 142,538           | (42,642)         | 99,896          | Adult Social Care  |           | 143,588           | (41,460)         | 102,128         |
| 23,756            | (20,521)         | 3,235           | Public Health  |           | 26,519            | (22,070)         | 4,449           |
| 15,733            | (1,869)          | 13,864          | Corporate and Democratic Core  |           | 6,149             | (615)            | 5,534           |
| 23,711            | (358)            | 23,353          | Non Distributed Costs  |           | 22,155            | (516)            | 21,639          |
| <b>978,581</b>    | <b>(681,066)</b> | <b>297,515</b>  | <b>Cost of Services</b>  | <b>28</b> | <b>1,066,877</b>  | <b>(712,886)</b> | <b>353,991</b>  |
|                   |                  | (9,801)         | Other Operating Expenditure  | 9         |                   |                  | 3,296           |
|                   |                  | 37,381          | Financing and Investment Income and Expenditure  | 10        |                   |                  | 44,965          |
|                   |                  | -               | Surplus or Deficit of Discontinued Operations  |           |                   |                  | -               |
|                   |                  | (406,180)       | Taxation and Non-Specific Grant Income   | 11        |                   |                  | (370,014)       |
|                   |                  | <b>(81,085)</b> | <b>(Surplus) or Deficit on Provision of Services</b>   |           |                   |                  | <b>32,238</b>   |
|                   |                  | -               | 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>(81,085)</b> | <b>(Surplus) or Deficit including Associates &amp; Joint Ventures</b>  |           |                   |                  | <b>32,238</b>   |
|                   |                  | (31,735)        | Surplus or Deficit on Revaluation of Property, Plant and Equipment Assets  | 24        |                   |                  | (16,700)        |
|                   |                  | -               | Surplus or Deficit on Revaluation of Available for Sale Financial Assets   |           |                   |                  | -               |
|                   |                  | 136,603         | Remeasurement of the Net Defined Benefit Liability   | 47        |                   |                  | 137,863         |
|                   |                  | <b>104,868</b>  | <b>Other Comprehensive Income &amp; Expenditure</b>  |           |                   |                  | <b>121,163</b>  |
|                   |                  | <b>23,783</b>   | <b>Total Comprehensive Income &amp; Expenditure</b>  |           |                   |                  | <b>153,401</b>  |

## BALANCE SHEET

| 31st March<br>2014<br>£000 |   | Note | 31st March<br>2015<br>£000 |
|----------------------------|---|------|----------------------------|
| 1,948,565                  | Property, Plant & Equipment               | 12   | 1,971,641                  |
| 80,806                     | Heritage Assets                           | 51   | 81,395                     |
| 1,691                      | Intangible Assets                         | 14   | 1,791                      |
| 7,785                      | Long Term Investments                     | 15   | 7,785                      |
| 2,780                      | Long Term Debtors                         | 18   | 2,842                      |
| <b>2,041,627</b>           | <b>Long Term Assets</b>                   |      | <b>2,065,454</b>           |
| 116,159                    | Short Term Investments                    | 15   | 112,297                    |
| 19,359                     | Assets Held For Sale (<1 year)            | 20   | 17,985                     |
| 2,953                      | Inventories                               | 16   | 2,916                      |
| 53,436                     | Short Term Debtors                        | 18   | 54,819                     |
| 85,445                     | Cash and Cash Equivalents                 | 19   | 54,088                     |
| <b>277,352</b>             | <b>Current Assets</b>                     |      | <b>242,105</b>             |
| (18,329)                   | Bank Overdraft                            | 19   | (943)                      |
| (3,510)                    | Short Term Borrowing                      | 15   | (3,505)                    |
| (125,254)                  | Short Term Creditors                      | 21   | (138,014)                  |
| (6,003)                    | Provisions (<1 year)                      | 22   | (8,103)                    |
| <b>(153,096)</b>           | <b>Current Liabilities</b>                |      | <b>(150,565)</b>           |
| (13,361)                   | Provisions (>1 year)                      | 22   | (9,465)                    |
| (243,108)                  | Long Term Borrowing                       | 15   | (243,101)                  |
| (722,217)                  | Other Long Term Liabilities               | 15   | (884,024)                  |
| (17,880)                   | Capital Grants Receipts in Advance        | 38   | (4,488)                    |
| <b>(996,566)</b>           | <b>Long Term Liabilities</b>              |      | <b>(1,141,078)</b>         |
| <b>1,169,317</b>           | <b>Net Assets</b>                         |      | <b>1,015,916</b>           |
| 280,687                    | <u>Represented by:</u><br>Usable Reserves | 23   | 296,351                    |
| 888,630                    | Unusable Reserves                         | 24   | 719,565                    |
| <b>1,169,317</b>           | <b>Total Reserves</b>                     |      | <b>1,015,916</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.

| 2013/14<br>£000 |  | Note      | 2014/15<br>£000 |
|-----------------|--|-----------|-----------------|
| 81,085          | Net surplus or (deficit) on the provision of services  |           | (32,238)        |
| 123,786         | Adjustments to net surplus or deficit on the provision of services for non-cash movements  |           | 163,562         |
| (151,195)       | Adjustments for items included in the net surplus or deficit on the provision of services that are investing or financing activities |           | (93,199)        |
| <b>53,676</b>   | <b>Net cash flows from Operating Activities</b>  | <b>25</b> | <b>38,125</b>   |
| 8,544           | Net cash flows from Investing Activities   | 26        | (48,688)        |
| (7,110)         | Net cash flows from Financing Activities   | 27        | (3,408)         |
| <b>55,110</b>   | <b>Net increase or (decrease) in cash and cash equivalents</b>   |           | <b>(13,971)</b> |
| 12,006          | Cash (in hand) and cash equivalents at the beginning of the reporting period   |           | 67,116          |
| <b>67,116</b>   | <b>Cash (in hand) and cash equivalents at the end of the reporting period</b>  | <b>19</b> | <b>53,145</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 2014/15 financial year and its position at the year end of 31 March 2015. 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 2014/15 and the Service Reporting Code of Practice 2014/15 (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 3.2%. 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, NNDR etc.) is credited to the Taxation and non-specific grant income in the CI&ES.

Grants that relate to capital expenditure are recognised in the year that the conditions of the grant are met, or immediately upon receipt if there are no conditions. These items are credited in the 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 2014/15.

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

## **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 2014/15 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received with the exception of:

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

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

#### **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 (or fair value based on market value at highest and best use for surplus assets).

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

Assets included in the Balance Sheet at fair value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CIES where they arise from the reversal of an impairment loss previously charged to a service revenue account. Decreases in valuations, when identified, are initially written down against any previous values in the Revaluation Reserve for that asset, and any balance of the reduction is written down to the relevant service line in the CIES. The Revaluation Reserve contains revaluation gains recognised since 1 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 & Accounting Standards Issued but not Adopted**

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

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

There are no prior period adjustments required in respect of 2013/14 comparative figures.

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

No changes have been made to the Council's accounting policies in 2014/15.

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

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The following accounting standards apply from 1<sup>st</sup> April 2015 and will be reflected in the Council's 2015/16 Statement of Accounts, but will not have any impact on this 2014/15 statement.

#### **IFRS 13 – Fair Value Measurement**

This standard clarifies a consistent definition of Fair Value and confirms that all assets and liabilities are to be valued at Fair Value based on highest and best use unless another valuation basis (for example fair value in current use or depreciated replacement cost) is specifically required. This standard is not expected to have a material impact on the Council's valuation of its assets. The standard is applied prospectively so will apply to valuations in the 2015/16 accounts but will not require restatement of any 2014/15 balances.

#### **Annual Improvements to IFRSs (2011 – 2013 Cycle)**

These are minor improvements made to the reporting standards, primarily involving clarifications rather than amendment of the existing standards. No material impact on the Council's accounts is expected.

#### **IFRIC 21 – Levies**

This standard covers the timing of the recognition of payment of levies where these are imposed on organisations by the Government. It is not expected to have a material impact on the Council's accounts.

### **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 2014/15, 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.

## 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 2014/15. 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 2015 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.   | <p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by approximately £0.5m for every year that useful lives had to be reduced.</p>   |
| 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 an 11% increase to the employers liability amounting to approximately £192m. A one year increase in member life expectancy would mean a 3% increase in employers liability amounting to approximately £52m. A 0.5% increase in the Pension Increase Rate would mean a 7% increase to the employers liability amounting to £120m. A 0.5% increase in the projected rate of salary increased would lead to an increased liability of 4% or £67m. |

|                        |   |  |
|------------------------|---|--|
| 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.  |
| Business Rates Appeals | <p>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.</p> <p>The reliability of this estimate is affected by the late submission of a large number of appeals at the end of March 2015. These arose because the Government announced that appeals received after this date could not be backdated.</p> | The provision made by the Council stands at £4.7m at 31 <sup>st</sup> March 2015. This calculation is based on the advice of independent consultants who have analysed a range of data sources and made professional estimations. If the volume and outcome of appeals differs significantly from the assumptions made then this will impact on whether the level of provision is adequate. The Council's judgement that the impact of any error would not have a material impact on these financial statements. The level of uncertainty should reduce in future years as no further backdated appeals are allowed after 31 <sup>st</sup> March 2015. |

## **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 accounts were approved by the Director of Finance on the 30<sup>th</sup> June 2015. At this time there were no material events after the reporting date to be disclosed.



## 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.

| 2014/15  | 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  | (71,080)             | 3,003                   | -                        | (6,796)               | -                        | 74,873                      |
| Revaluation losses on Property Plant and Equipment   | (35,222)             | -                       | -                        | -                     | -                        | 35,222                      |
| Capital grants and contributions applied   | 85,793               | -                       | -                        | -                     | -                        | (85,793)                    |
| Capital expenditure funded from revenue  | 12,016               | -                       | -                        | -                     | 409                      | (12,425)                    |
| Revenue expenditure funded from capital under statute  | (49,968)             | -                       | -                        | -                     | -                        | 49,968                      |
| 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 | (5,846)              | (7,130)                 | -                        | -                     | -                        | 12,976                      |
| <b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Account:</b>   |                      |                         |                          |                       |                          |                             |
| Statutory provision for the financing of capital investment  | 13,288               | 152                     | -                        | -                     | -                        | (13,440)                    |
| Voluntary provision for the financing of capital expenditure   | 5,486                | -                       | -                        | -                     | -                        | (5,486)                     |
| Capital expenditure charged against the General Fund and HRA balances  | 436                  | 16,614                  | -                        | -                     | -                        | (17,050)                    |
| <b>Adjustments primarily involving the Capital Receipts Reserve:</b>   |                      |                         |                          |                       |                          |                             |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement                       | 4,584                | 8,400                   | (12,984)                 | -                     | -                        |                             |
| Use of the Capital Receipts Reserve to finance new capital expenditure   | -                    | -                       | 21,305                   | -                     | -                        | (21,305)                    |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool   | (1,514)              | -                       | 1,514                    | -                     | -                        |                             |

| 2014/15 continued  | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Movemt in Unusable Reserves |
|--|----------------------|-------------------------|--------------------------|-----------------------|--------------------------|-----------------------------|
|  | £000                 | £000                    | £000                     | £000                  | £000                     | £000                        |
| <b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>  |                      |                         |                          |                       |                          |                             |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash   | (5)                  | -                       | -                        | -                     | -                        | 5                           |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement   | 2                    | -                       | -                        | -                     | -                        | (2)                         |
| <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  | -                    | (6,796)                 | -                        | 6,796                 | -                        |                             |
| <b>Adjustments primarily involving the Capital Grants Unapplied Reserve:</b>   |                      |                         |                          |                       |                          |                             |
| Capital grants recognised in the year and credited to the Capital Grants Unapplied Reserve   | 22,833               | -                       | -                        | -                     | (22,833)                 |                             |
| Application of grants to capital financing credited to the Capital Adjustment Account  | (21,203)             | -                       | (1,250)                  | -                     | 22,453                   |                             |
| <b>Adjustments primarily involving the Financial Instruments Adjustments Account:</b>  |                      |                         |                          |                       |                          |                             |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements            | (602)                | 45                      | -                        | -                     | -                        | 557                         |
| <b>Adjustments primarily involving the Pensions Reserve:</b>   |                      |                         |                          |                       |                          |                             |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure  | (61,520)             | (7,229)                 | -                        | -                     | -                        | 68,749                      |
| Employer's pensions contributions and direct payments to pensioners payable in the year  | 34,877               | 4,099                   | -                        | -                     | -                        | (38,976)                    |
| <b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>   |                      |                         |                          |                       |                          |                             |
| Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements | (1,411)              | -                       | -                        | -                     | -                        | 1,411                       |
| <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                         | 1,499                | (117)                   | -                        | -                     | -                        | (1,382)                     |
| <b>Total Adjustments</b>   | <b>(67,557)</b>      | <b>11,041</b>           | <b>8,585</b>             | <b>-</b>              | <b>29</b>                | <b>47,902</b>               |

| 2013/14 Comparative Information  | 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   | (7,986)              |                         |                          |                       |                          | 7,986                       |
| 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  | 49,581               | 18,481                  |                          |                       |                          | (68,062)                    |
| <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                         |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool   |                      | (1,480)                 | 1,480                    |                       |                          |                             |
| <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)                        |

| 2013/14 Comparative Information<br>continued   | General<br>Fund<br>Balance | Housing<br>Revenue<br>Account | Capital<br>Receipts<br>Reserve | Major<br>Repairs<br>Reserve | Capital<br>Grants<br>Unapplied | Movemt in<br>Unusable<br>Reserves |
|--|----------------------------|-------------------------------|--------------------------------|-----------------------------|--------------------------------|-----------------------------------|
|  | £000                       | £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  |                            | (7,262)                       |                                | 7,262                       |                                |                                   |
| <b>Adjustments primarily involving the Capital Grants Unapplied Reserve:</b>   |                            |                               |                                |                             |                                |                                   |
| Capital grants recognised in the year and credited to the Capital Grants Unapplied Reserve   | 57,538                     |                               |                                |                             | (57,538)                       |                                   |
| <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  | (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>61,459</b>              | <b>12,891</b>                 | <b>(8,927)</b>                 | <b>-</b>                    | <b>(57,538)</b>                | <b>(7,885)</b>                    |

## 8. Earmarked Reserves

Earmarked reserves are amounts set aside to provide financing for future expenditure plans. The table below provides a list of earmarked reserves held by the Council at the end of the financial year, with descriptions of key reserves below.

| 2014/15                                      | Balance at<br>31st March<br>2014<br>£000 | Transfers<br>In<br>2014/15<br>£000 | Transfers<br>Out<br>2014/15<br>£000 | Balance at<br>31st March<br>2015<br>£000 |
|--|--|------------------------------------|-------------------------------------|--|
| <b>Ring-fenced Reserves</b>                  |  |                                    |                                     |  |
| DSG not delegated to schools                 | 14,586                                   | 5,217                              | 0                                   | 19,803                                   |
| School Balances                              | 21,401                                   | 2,903                              | (5,786)                             | 18,518                                   |
| NHS Joint Working Projects                   | 13,516                                   | 4,084                              | (11,799)                            | 5,802                                    |
| Schools Capital Fund                         | 4,545                                    | 369                                | (1,282)                             | 3,632                                    |
| Schools Buy Back                             | 1,276                                    | 2,541                              | (2,803)                             | 1,014                                    |
|  | <b>55,324</b>                            | <b>15,114</b>                      | <b>(21,670)</b>                     | <b>48,769</b>                            |
| <b>Corporate Reserves</b>                    |  |                                    |                                     |  |
| Building Schools for the Future - Financing  | 23,566                                   | 1,333                              | (582)                               | 24,316                                   |
| Capital Reserve                              | 19,227                                   | 10,234                             | (13,668)                            | 15,792                                   |
| Severance Fund                               | 13,347                                   | 0                                  | (2,852)                             | 10,495                                   |
| Insurance Fund                               | 7,409                                    | 8,540                              | (7,136)                             | 8,813                                    |
| Service Transformation Fund                  | 2,747                                    | 4,339                              | 0                                   | 7,086                                    |
| Welfare Reform Reserve                       | 2,990                                    | 2,037                              | 0                                   | 5,027                                    |
| Energy Reduction Reserve                     | 1,362                                    | 1,500                              | 0                                   | 2,862                                    |
| Job Evaluation (inc Schools Catering)        | 1,225                                    | 2,451                              | (3,676)                             | 0  |
|  | <b>71,873</b>                            | <b>30,434</b>                      | <b>(27,914)</b>                     | <b>74,391</b>                            |
| <b>Other Reserves</b>                        |  |                                    |                                     |  |
| Children's Services Funds                    | 2,463                                    | 2,362                              | (953)                               | 3,873                                    |
| Financial Services Divisional Reserve        | 1,585                                    | 3,596                              | (2,290)                             | 2,891                                    |
| Adult Social Care Budget Pressures           | 0  | 3,203                              | (1,203)                             | 2,000                                    |
| Channel Shift Reserve                        | 0  | 2,000                              | 0                                   | 2,000                                    |
| City Development & Neighbourhoods            | 2,988                                    | 10                                 | (1,143)                             | 1,855                                    |
| Looked After Children Placements             | 1,330                                    | 352                                | (157)                               | 1,525                                    |
| IT Reserves                                  | 1,096                                    | 528                                | (103)                               | 1,521                                    |
| Strategic Initiatives                        | 1,043                                    | 0                                  | 0                                   | 1,043                                    |
| Surplus Property Disposal Reserve            | 0  | 1,000                              | 0                                   | 1,000                                    |
| Preventing Homelessness                      | 936                                      | 0                                  | (37)                                | 899                                      |
| Housing Divisional Reserve                   | 651                                      | 148                                | (9)                                 | 790                                      |
| Social Care Replacement IT System            | 1,218                                    | 0                                  | (471)                               | 747                                      |
| Economic Action Plan                         | 1,169                                    | 18                                 | (450)                               | 736                                      |
| Outdoor Gyms Reserve                         | 0  | 727                                | 0                                   | 727                                      |
| HR Divisional Reserve                        | 677                                      | 22                                 | (10)                                | 689                                      |
| Individual Electronic Registration           | 380                                      | 257                                | 0                                   | 637                                      |
| Improvements to Health & Wellbeing Reserve   | 3,313                                    | 0                                  | (2,703)                             | 610                                      |
| Markets Reserve                              | 0  | 500                                | 0                                   | 500                                      |
| Legal Services Divisional Reserve            | 380                                      | 100                                | 0                                   | 480                                      |
| Highways Maintenance                         | 418                                      | 0                                  | 0                                   | 418                                      |
| City Council Elections                       | 300                                      | 100                                | 0                                   | 400                                      |
| Delivery Communications & Political Governan | 338                                      | 0                                  | 0                                   | 338                                      |
| Housing-related Support Reserve              | 331                                      | 0                                  | 0                                   | 331                                      |
| Connexions Closure                           | 2,186                                    | 0                                  | (2,186)                             | 0  |
| Other - Miscellaneous Reserves               | 2,495                                    | 4,464                              | (4,088)                             | 2,872                                    |
|  | <b>25,297</b>                            | <b>19,387</b>                      | <b>(15,803)</b>                     | <b>28,882</b>                            |
| <b>Total Earmarked Reserves</b>              | <b>152,494</b>                           | <b>64,935</b>                      | <b>(65,387)</b>                     | <b>152,042</b>                           |

| <b>2013/14 Comparative Information</b>                      | <b>Balance at<br/>1st April<br/>2013<br/>£000</b> | <b>Transfers<br/>In<br/>2013/14<br/>£000</b> | <b>Transfers<br/>Out<br/>2013/14<br/>£000</b> | <b>Balance at<br/>31st March<br/>2014<br/>£000</b> |
|---|---|--|---|--|
| <b>Ring-fenced Reserves</b>                                 |   |  |   |  |
| School Balances   | 24,651  | 1,881  | (5,131)                                       | 21,401   |
| DSG not delegated to schools                                | 6,609   | 7,977  | 0   | 14,586   |
| NHS Joint Working Projects                                  | 12,957  | 3,031  | (2,472)                                       | 13,516   |
| Schools Capital Fund  | 5,449   | 1,826  | (2,730)                                       | 4,545  |
| Schools Buy Back  | 1,136   | 2,080  | (1,940)                                       | 1,276  |
|   | <b>50,802</b>                                     | <b>16,795</b>                                | <b>(12,273)</b>                               | <b>55,324</b>                                      |
| <b>Corporate Reserves</b>                                   |   |  |   |  |
| Building Schools for the Future - Financing Capital Reserve | 37,027  | 1,506  | (14,967)                                      | 23,566   |
| Severance Fund  | 25,957  | 42,037                                       | (48,767)                                      | 19,227   |
| Insurance Fund  | 9,271   | 6,500  | (2,424)                                       | 13,347   |
| Welfare Reform Reserve                                      | 5,382   | 8,793  | (6,767)                                       | 7,409  |
| Service Transformation Fund                                 | 0   | 3,176  | (186)   | 2,990  |
| Energy Reduction Reserve                                    | 0   | 2,747  | 0   | 2,747  |
| Job Evaluation (inc Schools Catering)                       | 312   | 1,050  | 0   | 1,362  |
|   | 1,225   | 0  | 0   | 1,225  |
|   | <b>79,174</b>                                     | <b>65,809</b>                                | <b>(73,111)</b>                               | <b>71,873</b>                                      |
| <b>Other Reserves</b>                                       |   |  |   |  |
| Improvements to Health & Wellbeing Reserve                  | 3,313   | 0  | 0   | 3,313  |
| City Development & Neighbourhoods                           | 2,874   | 1,635  | (1,520)                                       | 2,988  |
| Other - Miscellaneous Reserves                              | 2,969   | 3,797  | (4,271)                                       | 2,495  |
| Children's Services Funds                                   | 1,446   | 1,573  | (556)   | 2,463  |
| Connexions Closure  | 1,797   | 390  | 0   | 2,186  |
| Financial Services Divisional Reserve                       | 1,720   | 922  | (1,057)                                       | 1,585  |
| Looked After Children Placements                            | 0   | 1,330  | 0   | 1,330  |
| Social Care Replacement IT System                           | 2,099   | 1,602  | (2,483)                                       | 1,218  |
| Economic Action Plan  | 1,129   | 897  | (858)   | 1,169  |
| IT Reserves   | 2,050   | 686  | (1,640)                                       | 1,096  |
| Strategic Initiatives                                       | 1,043   | 286  | (286)   | 1,043  |
| Preventing Homelessness                                     | 936   | 0  | 0   | 936  |
| HR Divisional Reserve                                       | 701   | 0  | (24)  | 677  |
| Housing Divisional Reserve                                  | 401   | 450  | (200)   | 651  |
| Highways Maintenance  | 418   | 0  | 0   | 418  |
| Individual Electronic Registration                          | 0   | 380  | 0   | 380  |
| Legal Services Divisional Reserve                           | 380   | 27   | (27)  | 380  |
| Delivery Communications & Political Governance              | 300   | 38   | 0   | 338  |
| Housing-related Support Reserve                             | 609   | 70   | (348)   | 331  |
| City Council Elections                                      | 100   | 200  | 0   | 300  |
|   | <b>24,285</b>                                     | <b>14,283</b>                                | <b>(13,270)</b>                               | <b>25,297</b>                                      |
| <b>Total Earmarked Reserves</b>                             | <b>154,261</b>                                    | <b>96,887</b>                                | <b>(98,654)</b>                               | <b>152,494</b>                                     |

### **Schools' Revenue Balances**

The amount of money held in this reserve has decreased from £21.4m to £18.5m 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. The balance at year-end stands at £24.3m – the BSF construction programme is now coming to completion.

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

This amount comprises £19.8m of ring-fenced school reserves which are not devolved to schools. These monies are ring-fenced to the schools block and not available for general spending. In addition, the department holds £3.9m 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 and is committed to support the capital programme of expenditure.

### **NHS Joint Working Projects**

This reserve was set up in 2011/12 and stands at £5.8m 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>2013/14<br/>£000</b> | <b>2014/15<br/>£000</b> |
|--|-------------------------|-------------------------|
| Levies   | 74                      | 75                      |
| Payments to the government Housing Capital Receipts Pool | 1,480                   | 1,514                   |
| Total gains/losses on the disposal of non-current assets | (8,667)                 | (271)                   |
| Costs of sale – assets held for sale                     | 682                     | 264                     |
| Other operating income and expenditure                   | (3,370)                 | 1,714                   |
| <b>Total</b>   | <b>(9,801)</b>          | <b>3,296</b>            |

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

|   | <b>2013/14<br/>£000</b> | <b>2014/15<br/>£000</b> |
|---|-------------------------|-------------------------|
| Interest payable and similar charges                          | 19,197                  | 20,741                  |
| Pensions interest cost and expected return on pensions assets | 19,661                  | 25,729                  |
| Interest receivable and similar income                        | -                       | -                       |
| (Surplus)/deficit on trading operations                       | (1,477)                 | (1,505)                 |
| <b>Total</b>  | <b>37,381</b>           | <b>44,965</b>           |

## 11. Taxation and Non-Specific Grant Income

|                                  | 2013/14<br>£000  | 2014/15<br>£000  |
|----------------------------------|------------------|------------------|
| Council Tax income               | (80,419)         | (84,568)         |
| Non domestic rates               | (86,732)         | (90,206)         |
| Non-ringfenced government grants | (135,496)        | (118,851)        |
| Capital grants and contributions | (103,533)        | (76,389)         |
| <b>Total</b>                     | <b>(406,180)</b> | <b>(370,014)</b> |

## 12. Property, Plant & Equipment

| Movements in Balances<br>2014/15  | Council Dwellings | Other Land and Buildings | Vehicles, Plant, Furniture and<br>Equipment | Infrastructure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property, Plant and<br>Equipment | PFI Assets Included in Property,<br>Plant and Equipment |
|---|-------------------|--------------------------|---|-----------------------|------------------|----------------|---------------------------|--|---|
|   | £000              | £000                     | £000  | £000                  | £000             | £000           | £000                      | £000                                   | £000  |
| <b>Cost or Valuation</b>  |                   |                          |   |                       |                  |                |                           |  |   |
| At 1st April 2014   | 614,999           | 1,032,348                | 74,584                                      | 244,561               | 1,785            | 86,339         | 19,257                    | 2,073,873                              | 109,655   |
| Additions   | 29,533            | 57,759                   | 5,564                                       | 13,613                | 468              | 8,038          | 20,250                    | 135,225                                | 161   |
| Revaluation Increases/(Decreases)<br>recognised in the Revaluation Reserve      | -                 | 4,002                    | -   | (44)                  | 171              | 4,237          | -                         | 8,366                                  | -   |
| Revaluation Decreases / Increases not<br>recognised in the Revaluation Reserve  | (6,769)           | (65,865)                 | (9)   | (621)                 | (4,062)          | (10,955)       | -                         | (88,281)                               | (10,746)  |
| De-recognition – disposals  | (7,131)           | (1,549)                  | -   | -                     | -                | (5)            | -                         | (8,685)                                | -   |
| Assets reclassified (to) / from Held for Sale                                   | -                 | -                        | -   | -                     | -                | -              | -                         | -                                      | -   |
| Asset reclassified (other)  | -                 | 25,876                   | -   | 657                   | 3,594            | (4,809)        | (29,484)                  | (4,166)                                | -   |
| Other movements in cost or valuation  | -                 | -                        | -   | -                     | -                | -              | -                         | -                                      | -   |
| <b>As at 31st March 2015</b>  | <b>630,632</b>    | <b>1,052,571</b>         | <b>80,139</b>                               | <b>258,166</b>        | <b>1,956</b>     | <b>82,845</b>  | <b>10,023</b>             | <b>2,116,332</b>                       | <b>99,070</b>   |
| <b>Accumulated Depreciation &amp;<br/>Impairment</b>                            |                   |                          |   |                       |                  |                |                           |  |   |
| At 1st April 2014   | (6,646)           | (41,949)                 | (40,003)                                    | (36,607)              | -                | (103)          | -                         | (125,308)                              | (7,041)   |
| Depreciation Charge   | (6,796)           | (17,171)                 | (7,958)                                     | (5,910)               | -                | (79)           | -                         | (37,914)                               | (3,820)   |
| Depreciation written out to Revaluation<br>Reserve                              | -                 | 8,391                    | -   | 2                     | -                | 4              | -                         | 8,397                                  | -   |
| Depreciation written out to the Surplus/Deficit<br>on the provision of services | 6,645             | 3,341                    | -   | 8                     | -                | 9              | -                         | 10,003                                 | -   |
| De-recognition – disposals  | -                 | 241                      | -   | (135)                 | -                | 25             | -                         | 131                                    | -   |
| <b>As at 31st March 2015</b>  | <b>(6,797)</b>    | <b>(47,147)</b>          | <b>(47,961)</b>                             | <b>(42,642)</b>       | <b>-</b>         | <b>(144)</b>   | <b>-</b>                  | <b>(144,691)</b>                       | <b>(10,861)</b>   |
| <b>Net Book Value<br/>as at 31st March 2015</b>                                 | <b>623,835</b>    | <b>1,005,424</b>         | <b>32,178</b>                               | <b>215,524</b>        | <b>1,956</b>     | <b>82,701</b>  | <b>10,023</b>             | <b>1,971,641</b>                       | <b>88,209</b>   |
| As at 1st April 2014  | 608,353           | 990,399                  | 34,581                                      | 207,954               | 1,785            | 86,236         | 19,257                    | 1,948,565                              | 102,614   |



| <b>2013/14 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 2013  | 606,271           | 972,080                  | 71,510                                   | 230,065               | 1,127            | 93,293         | 2,236                     | <b>1,976,582</b>                    | 65,057   |
| Additions  | 17,494            | 103,905                  | 3,307                                    | 12,997                | 224              | 2,395          | 22,476                    | <b>162,798</b>                      | 44,598   |
| Revaluation Increases/(Decreases) recognised in the Revaluation Reserve      | (4)               | 18,484                   | -  | 1,790                 | 688              | 1,047          | -                         | <b>22,005</b>                       | -  |
| Revaluation Decreases / Increases not recognised in the Revaluation Reserve  | (6,857)           | (56,477)                 | (82)                                     | (291)                 | (254)            | (2,708)        | -                         | <b>(66,669)</b>                     | -  |
| De-recognition – disposals   | (1,905)           | (63)                     | (21)                                     | -                     | -                | (1,317)        | -                         | <b>(3,306)</b>                      | -  |
| Assets reclassified (to) / from Held for Sale                                | -                 | (8,973)                  | -  | -                     | -                | (6,303)        | -                         | <b>(15,276)</b>                     | -  |
| Asset reclassified (other)   | -                 | 5,391                    | -  | -                     | -                | 64             | (5,455)                   | -                                   | -  |
| Other movements in cost or valuation   | -                 | (1,999)                  | (130)                                    | -                     | -                | (132)          | -                         | <b>(2,261)</b>                      | -  |
| <b>As at 31st March 2014</b>   | <b>614,999</b>    | <b>1,032,348</b>         | <b>74,584</b>                            | <b>244,561</b>        | <b>1,785</b>     | <b>86,339</b>  | <b>19,257</b>             | <b>2,073,873</b>                    | <b>109,655</b>                                       |
| <b>Accumulated Depreciation &amp; Impairment</b>                             |                   |                          |  |                       |                  |                |                           |                                     |  |
| At 1st April 2013  | (6,540)           | (33,642)                 | (31,715)                                 | (30,874)              | -                | (73)           | -                         | <b>(102,844)</b>                    | (4,108)  |
| Depreciation Charge  | (6,645)           | (15,176)                 | (8,291)                                  | (5,733)               | -                | (46)           | -                         | <b>(35,891)</b>                     | (2,933)  |
| Depreciation written out to Revaluation Reserve                              | (3)               | 2,374                    | -  | -                     | -                | 8              | -                         | <b>2,379</b>                        | -  |
| Depreciation written out to the Surplus/Deficit on the provision of services | 6,542             | 3,952                    | -  | -                     | -                | 1              | -                         | <b>10,495</b>                       | -  |
| De-recognition – disposals   | -                 | 543                      | 3  | -                     | -                | 7              | -                         | <b>553</b>                          | -  |
| <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>990,399</b>           | <b>34,581</b>                            | <b>207,954</b>        | <b>1,785</b>     | <b>86,236</b>  | <b>19,257</b>             | <b>1,948,565</b>                    | <b>102,614</b>                                       |
| As at 31st March 2013  | 599,731           | 938,438                  | 39,795                                   | 199,191               | 1,127            | 93,220         | 2,236                     | <b>1,873,738</b>                    | 60,949   |

### **Capital Commitments**

At 31<sup>st</sup> March 2015, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2015/16. Similar commitments at 31<sup>st</sup> March 2014 were £122.6m. The major commitments are:

| <b>Contract for Capital Investment</b>   | <b>Period</b> | <b>£000</b>   |
|--|---------------|---------------|
| Street Lighting                          | 2015/16       | 5,130         |
| Kestrel Fields Primary                   | 2015/16       | 3,000         |
| Whitehall Primary                        | 2015/16       | 1,400         |
| St Marys Infants                         | 2015/16       | 1,370         |
| Hamilton & Netherhall BSF                | 2015/16       | 1,100         |
| Lancaster Boys BSF                       | 2015/16       | 1,090         |
| Caldecote Primary                        | 2015/16       | 900           |
| Housing - Gypsy & Traveller Accomodation | 2015/16       | 810           |
| Market Re-Development                    | 2015/16       | 760           |
| Sir Jonathan North                       | 2015/16       | 740           |
| Housing - Boiler replacements            | 2015/16       | 660           |
| Babington BSF                            | 2015/16       | 590           |
| Hope Hamilton Primary                    | 2015/16       | 580           |
| NWC Demolition                           | 2015/16       | 560           |
| Christ The King RC Primary               | 2015/16       | 540           |
| Moat BSF                                 | 2015/16       | 480           |
| Westgate BSF                             | 2015/16       | 450           |
| Housing - Kitchens & Bathrooms           | 2015/16       | 448           |
| St Pauls BSF                             | 2015/16       | 200           |
| Barleycroft Primary                      | 2015/16       | 190           |
| English Martyrs (Muga) BSF               | 2015/16       | 170           |
| Housing - New Build - Laburnham Road     | 2015/16       | 160           |
| New College BSF                          | 2015/16       | 150           |
| Housing - Rewire & Electrical upgrades   | 2015/16       | 140           |
| Housing - Upper Tichbourne redevelopment | 2015/16       | 120           |
| Housing - Structural Repairs             | 2015/16       | 100           |
| Jubilee Square                           | 2015/16       | 100           |
| <b>Total</b>                             |               | <b>21,938</b> |

Commitments relating to PFI type schemes are included in Note 42.

### ***Revaluations***

The Council carries out a rolling programme that ensures that all property and land (subject to a de minimis of £10k for asset values) is revalued at least every five years with the exception of items shown in the table below.

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

Valuations of Council Dwellings are carried out by a specialist external valuer each year. All other valuations were carried out internally. The officer who carried out these valuations is an accredited valuer chartered member of the Royal Institution of Chartered Surveyors (RICS).

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

| 2014/15 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 Valued @ 31st March 2015 | -                 | 29,310                 | 27,129                                 | 212,457        | 40           | 270           | 10,023                    | <b>279,229</b>   |
| Valued at fair or nominal value as at:   | 623,835           | -                      | -                                      | -              | -            | -             | -                         | <b>623,835</b>   |
| Pre 1st April 2009                       | -                 | 114                    | -                                      | -              | 156          | 358           | -                         | <b>628</b>       |
| 1st April 2009                           | -                 | 4,372                  | -                                      | 120            | 370          | 768           | -                         | <b>5,630</b>     |
| 1st April 2010                           | -                 | 238,508                | -                                      | -              | -            | 3,132         | -                         | <b>241,640</b>   |
| 1st April 2011                           | -                 | 294,038                | 5,049                                  | -              | 10           | 971           | -                         | <b>300,068</b>   |
| 1st April 2012                           | -                 | 112,527                | -                                      | 517            | 202          | 198           | -                         | <b>113,444</b>   |
| 1st April 2013                           | -                 | 78,249                 | -                                      | 1,713          | 721          | 1,119         | -                         | <b>81,802</b>    |
| 1st April 2014                           | -                 | 248,306                | -                                      | 717            | 457          | 75,885        | -                         | <b>325,365</b>   |
| <b>Total</b>                             | <b>623,835</b>    | <b>1,005,424</b>       | <b>32,178</b>                          | <b>215,524</b> | <b>1,956</b> | <b>82,701</b> | <b>10,023</b>             | <b>1,971,641</b> |

The valuations have been made on the following assumptions:

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

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

### **13. Investment Properties**

The Code of Practice on Local Authority Accounting (2014/15) 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>2013/14<br/>£000</b> | <b>2014/15<br/>£000</b> |
|--|-------------------------|-------------------------|
| <b>Balance at 1st April</b>  |                         |                         |
| Gross Carrying Amounts   | 1,794                   | 2,558                   |
| Accumulated Amortisation   | (536)                   | (867)                   |
| <b>Net carrying amount at start of year</b>                                      | <b>1,258</b>            | <b>1,691</b>            |
| Additions (Purchases)  | 807                     | 590                     |
| Impairment losses recognised in the Surplus/Deficit on the Provision of Services | (43)                    | 0                       |
| Amortisation Applied in Year   | (331)                   | (490)                   |
| <b>Gross Carrying Amount at 31st March</b>                                       | <b>2,558</b>            | <b>3,148</b>            |
| Accumulated Amortisation   | (867)                   | (1,357)                 |
| <b>Net Carrying Amount at 31st March</b>   | <b>1,691</b>            | <b>1,791</b>            |

## 15. Financial Instruments

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

|  | Long Term      |                | Current        |                | Total          |                |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
|  | 2014           | 2015           | 2014           | 2015           | 2014           | 2015           |
|  | £000           | £000           | £000           | £000           | £000           | £000           |
| Investments  | 7,785          | 7,785          | 116,159        | 112,297        | 123,944        | 120,082        |
| Receivables (Debtors)  | 2,780          | 620            | 19,713         | 19,904         | 22,493         | 20,524         |
| Receivables (Other)  | -              | -              | 31,326         | 13,711         | 31,326         | 13,711         |
| <b>Investments &amp; Receivables</b>                         | <b>10,565</b>  | <b>8,405</b>   | <b>167,198</b> | <b>145,912</b> | <b>177,763</b> | <b>154,317</b> |
| Loans  | 243,108        | 243,101        | 3,510          | 3,505          | 246,618        | 246,606        |
| Payables (Creditors)   | -              | -              | 122,455        | 64,192         | 122,455        | 64,192         |
| <b>Loans &amp; Payables</b>                                  | <b>243,108</b> | <b>243,101</b> | <b>125,965</b> | <b>67,697</b>  | <b>369,073</b> | <b>310,798</b> |
| <b>Other Long Term Liabilities</b>                           |                |                |                |                |                |                |
| Leicestershire County Council                                | 28,642         | 27,447         | -              | -              | 28,642         | 27,447         |
| PFI and finance lease liabilities                            | 96,308         | 91,674         | 4,449          | 4,669          | 100,757        | 96,343         |
| <b>Total Other Long Term Liabilities</b>                     | <b>124,950</b> | <b>119,121</b> | <b>4,449</b>   | <b>4,669</b>   | <b>129,399</b> | <b>123,790</b> |
| <b>Total Loans, Payables and Other Long Term Liabilities</b> | <b>368,058</b> | <b>362,222</b> | <b>130,414</b> | <b>72,366</b>  | <b>498,472</b> | <b>434,588</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<br>31st March 2014<br>£000 | Balance at<br>31st March 2015<br>£000 |
|---|---------------------------------------|---------------------------------------|
| Long term element of Other Long Term Liabilities shown in above table | 124,950                               | 119,121                               |
| Long term pension liability   | 596,792                               | 764,428                               |
| Performance Bond - Hamilton Partnership                               | 475                                   | 475                                   |
| <b>Investments &amp; Receivables</b>                                  | <b>722,217</b>                        | <b>884,024</b>                        |

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

|   | 2013/14  |   |               | 2014/15  |   |                |
|---|--|---|---------------|--|---|----------------|
|   | 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  | 19,745   | -                                       | 19,745        | 19,317   | -                                       | 19,317         |
| <b>Total Expense in Surplus or Deficit on the Provision of Services</b> | <b>19,745</b>                                    | <b>-</b>                                | <b>19,745</b> | <b>19,317</b>                                    | <b>-</b>                                | <b>19,317</b>  |
| Interest Income   | -  | (812)                                   | (812)         | -  | (1,016)                                 | (1,016)        |
| <b>Total Income in Surplus or Deficit on the Provision of Services</b>  | <b>-</b>   | <b>(812)</b>                            | <b>(812)</b>  | <b>-</b>   | <b>(1,016)</b>                          | <b>(1,016)</b> |
| <b>Net gain/(loss) for the Year</b>                                     | <b>19,745</b>                                    | <b>(812)</b>                            | <b>18,933</b> | <b>19,317</b>                                    | <b>(1,016)</b>                          | <b>18,301</b>  |

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

The following table discloses the fair value of financial instruments:

|                             | 31st March 2014      |                 | 31st March 2015      |                 |
|-----------------------------|----------------------|-----------------|----------------------|-----------------|
|                             | Carrying Amount £000 | Fair Value £000 | Carrying Amount £000 | Fair Value £000 |
| <b>Assets</b>               |                      |                 |                      |                 |
| Loans                       | 116,159              | 116,159         | 112,297              | 112,297         |
| Investments - deposits      | 7,785                | 7,785           | 7,785                | 7,785           |
| Receivables                 | 51,362               | 51,362          | 34,235               | 34,235          |
| <b>Total Assets</b>         | <b>175,306</b>       | <b>175,306</b>  | <b>154,317</b>       | <b>154,317</b>  |
| <b>Liabilities</b>          |                      |                 |                      |                 |
| Loans                       | 246,618              | 261,264         | 251,275              | 335,120         |
| Other Long Term Liabilities | 129,399              | 129,399         | 119,121              | 119,121         |
| Payables                    | 122,455              | 122,455         | 64,191               | 64,192          |
| <b>Total Liabilities</b>    | <b>498,472</b>       | <b>513,118</b>  | <b>434,587</b>       | <b>518,433</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 fair values of long-term "Lender's Option Borrower's Option" (LOBO) loans have been calculated by discounting the contractual cash flows over the whole life of the instrument at the appropriate interest rate swap rate on 31st March plus a margin for local authority credit risk and adding the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to Bloomberg's proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

The 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 2015.

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 2015 |                |               |
|--|---|----------------|---------------|
|  | PWLB<br>£                                 | Market<br>£    | Stock<br>£    |
| Nominal Value at 31st March 2015         | 134,491                                   | 96,300         | 8,658         |
| Accrued interest                         | 1,253                                     | 843            | 108           |
| Equated interest adjustment              |   | 3,742          |               |
| <b>Carrying Value at 31st March 2015</b> | <b>135,744</b>                            | <b>100,885</b> | <b>8,766</b>  |
| <b>Fair Value at 31st March 2015</b>     | <b>167,168</b>                            | <b>145,980</b> | <b>13,798</b> |
| Lowest discount rate                     | 3.09%                                     | 2.80%          | 1.37%         |
| Highest discount rate                    | 3.13%                                     | 2.82%          | 1.37%         |
| Average discount rate                    | 3.11%                                     | 2.82%          | 1.37%         |

|  | Fair Value of Loans as at 31st March 2014 |                |              |
|--|---|----------------|--------------|
|  | PWLB<br>£                                 | Market<br>£    | Stock<br>£   |
| 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%        |

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 £7.9m at 31/03/2015 (£7.8m at 31/03/2014) 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 2015 is shown in the table below:

|                       | <b>Balance at<br/>31st March 2014<br/>£000</b> | <b>Balance at<br/>31st March 2015<br/>£000</b> |
|-----------------------|--|--|
| Consumable Stores     | 341  | 340  |
| Maintenance Materials | 2,093  | 2,075  |
| Work in Progress      | 519  | 501  |
| <b>Total</b>          | <b>2,953</b>                                   | <b>2,916</b>                                   |

## **17. Construction Contracts**

At 31<sup>st</sup> March 2015 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<br/>31st March 2014<br/>£000</b> | <b>Balance at<br/>31st March 2015<br/>£000</b> |
|------------------------|--|--|
| Mortgages              | 41   | 36   |
| Car Loans to Employees | 119  | 46   |
| PFI (CHP)              | 2,620  | 2,760  |
| <b>Total</b>           | <b>2,780</b>                                   | <b>2,842</b>                                   |



## Short-Term Debtors

|                                       | Balance at<br>31st March 2014<br>£000 | Balance at<br>31st March 2015<br>£000 |
|---------------------------------------|---------------------------------------|---------------------------------------|
| Central Government bodies             | 16,085                                | 9,037                                 |
| Other Local Authorities               | 2,307                                 | 5,826                                 |
| NHS bodies                            | 5,381                                 | 3,438                                 |
| Public Corporations and Trading Funds | -                                     | 12                                    |
| Other Entities and Individuals        | 23,196                                | 27,343                                |
| Payments in Advance                   | 5,859                                 | 8,190                                 |
| Capital Debtors                       | 608                                   | 973                                   |
| <b>Total</b>                          | <b>53,436</b>                         | <b>54,819</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<br>31st March 2014<br>£000 | Balance at<br>31st March 2015<br>£000 |
|--|---------------------------------------|---------------------------------------|
| <b>Cash and cash equivalents:</b>                        |                                       |                                       |
| Cash held by the Council                                 | 215                                   | 57                                    |
| Bank   | 17,992                                | 1,008                                 |
| Short-term deposits with local authorities - Investment  | 67,238                                | 53,023                                |
| Short-term deposits with local authorities - PSR element | -                                     |                                       |
| <b>Total Cash and Cash Equivalents</b>                   | <b>85,445</b>                         | <b>54,088</b>                         |
| Overdraft  | (18,329)                              | (943)                                 |
| <b>Total Cash and Cash Equivalents</b>                   | <b>67,116</b>                         | <b>53,145</b>                         |

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

## 20. Assets Held for Sale

|   | 2013/14<br>£000 | 2014/15<br>£000 |
|---|-----------------|-----------------|
| <b>Balance outstanding at start of year</b>                     | <b>4,312</b>    | <b>19,359</b>   |
| Property, Plant and Equipment newly classified as Held for Sale | 16,129          | 6,548           |
| Property, Plant and Equipment declassified                      | (1,396)         | (2,428)         |
| Assets Sold   | (166)           | (4,113)         |
| Other Adjustments   | 480             | (1,381)         |
| <b>Balance outstanding at end of year</b>                       | <b>19,359</b>   | <b>17,985</b>   |

As at the 31<sup>st</sup> March 2015 the Council had a total of £18m assets defined as held for sale. These are shown separately on the Balance Sheet and the assets meet the four main criteria of the code, namely;

- a) They are available for immediate sale in their existing condition.
- b) They are highly likely to be sold and action is planned to this effect.

- c) They are actively being marketed at a price that is reasonable.  
d) Sale should be expected within one year of the Balance Sheet date.

## 21. Creditors

|                                       | Balance at<br>31st March 2014<br>£000 | Balance at<br>31st March 2015<br>£000 |
|---------------------------------------|---------------------------------------|---------------------------------------|
| Central Government bodies             | 22,464                                | 33,542                                |
| Other Local Authorities               | 6,857                                 | 11,036                                |
| NHS bodies                            | 889                                   | 1,806                                 |
| Public Corporations and Trading Funds | 168                                   | -                                     |
| Other Entities and Individuals        | 55,423                                | 57,778                                |
| Receipts in Advance                   | 26,192                                | 26,658                                |
| Capital Creditors                     | 13,261                                | 7,194                                 |
| <b>Total</b>                          | <b>125,254</b>                        | <b>138,014</b>                        |

## 22. Provisions

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

|  | Insurance<br>£000 | Housing<br>Benefits<br>£000 | Equal<br>Pay<br>£000 | Sec 117<br>Mental<br>Health<br>Act<br>£000 | Housing<br>DSO Stock<br>&<br>Dilapidation<br>£000 | Business<br>Rate<br>Appeals<br>£000 | Total<br>£000 |
|--|-------------------|-----------------------------|----------------------|--|---|-------------------------------------|---------------|
| <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> |
| Net Movement (additions less amounts used) | (478)             | 1,508                       | (69)                 | (25)                                       | 7   | 3,553                               | 4,496         |
| <b>Balance at 1st April 2014</b>           | <b>5,312</b>      | <b>7,217</b>                | <b>1,664</b>         | <b>675</b>                                 | <b>943</b>  | <b>3,553</b>                        | <b>19,364</b> |
| Additional provisions made in 2014/15      |                   | 1,400                       |                      |  |   | 2,618                               | 4,018         |
| Amounts used in 2014/15                    |                   | (2,257)                     | (1,414)              | (636)                                      | (53)  | (1,454)                             | (5,814)       |
| <b>Balance at 31st March 2015</b>          | <b>5,312</b>      | <b>6,360</b>                | <b>250</b>           | <b>39</b>                                  | <b>890</b>  | <b>4,717</b>                        | <b>17,568</b> |

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 £9.3m 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 2012/13, 2013/14 and 2014/15 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 £6.4m 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 2015.

### ***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 2015. Therefore a provision has been charged to the collection fund calculated at a total of £9.627m (Council share of £4.717m).

## **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<br/>Balance<br/>£000</b> | <b>Movement<br/>£000</b> | <b>Closing<br/>Balance<br/>£000</b> | <b>Supporting Note</b>          |
|----------------------------------|-------------------------------------|--------------------------|-------------------------------------|---------------------------------|
| General Fund                     | (25,940)                            | (23,124)                 | (49,064)                            | MIRS and Explanatory Foreword   |
| Earmarked Reserves               | (152,494)                           | 452                      | (152,042)                           | Note 8 and Explanatory Foreword |
| Housing Revenue Account          | (14,469)                            | (1,606)                  | (16,075)                            | HRA Statement                   |
| Major Repairs Reserve            | (1,200)                             | -                        | (1,200)                             | Note 7 and HRA Note 14          |
| Capital Receipts Reserve         | (29,046)                            | 9,835                    | (19,211)                            | Note 7 and Note 40              |
| Capital Grants Unapplied Reserve | (57,538)                            | (1,221)                  | (58,759)                            | Note 7                          |
| <b>Total Usable Reserves</b>     | <b>(280,687)</b>                    | <b>(15,664)</b>          | <b>(296,351)</b>                    |                                 |

## 24. Unusable Reserves

|  | 31st March 2014<br>£000 | 31st March 2015<br>£000 |
|--|-------------------------|-------------------------|
| Revaluation Reserve                      | (381,634)               | (387,099)               |
| Capital Adjustment Account               | (1,108,893)             | (1,102,588)             |
| Financial Instruments Adjustment Account | (1,947)                 | (1,390)                 |
| Deferred Capital Receipts Reserve        | (103)                   | (101)                   |
| Pensions Reserve                         | 596,792                 | 764,428                 |
| Collection Fund Adjustment Account       | (1,487)                 | (76)                    |
| Accumulated Absences Account             | 8,642                   | 7,260                   |
| <b>Total Unusable Reserves</b>           | <b>(888,630)</b>        | <b>(719,566)</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.

|  | 2013/14<br>£000  | 2014/15<br>£000  |
|--|------------------|------------------|
| <b>Balance at 1st April</b>  | <b>(365,195)</b> | <b>(381,634)</b> |
| Upward revaluation of assets   | (56,643)         | (17,395)         |
| Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services             | 24,908           | 695              |
| <b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b> | <b>(31,735)</b>  | <b>(16,700)</b>  |
| Difference between fair value depreciation and historical cost depreciation  | 4,067            | 4,326            |
| Accumulated gains on assets sold or scrapped   | 11,229           | 6,909            |
| <b>Balance at 31st March</b>   | <b>(381,634)</b> | <b>(387,099)</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.

|  | 2013/14<br>£000    | 2014/15<br>£000    |
|--|--------------------|--------------------|
| <b>Balance at 1st April</b>  | <b>(1,064,436)</b> | <b>(1,108,893)</b> |
| <b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>        |                    |                    |
| Charges for depreciation & impairment  | 85,227             | 74,383             |
| Revaluation losses on Property, Plant and Equipment  | 7,986              | 35,222             |
| Amortisation of intangible assets  | 332                | 490                |
| Revenue expenditure funded from capital under statute  | 6,505              | 49,968             |
| 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 | 3,951              | 12,713             |
| Transfer of Assets Held For Sale   | 158                | 263                |
|  | <b>(960,277)</b>   | <b>(935,854)</b>   |
| Adjusting amounts written out of the Revaluation Reserve   | (14,764)           | (11,235)           |
| <b>Net written out amount of the cost of non-current assets consumed in the year</b>   | <b>(975,041)</b>   | <b>(947,089)</b>   |
| <b>Capital financing applied in the year:</b>  |                    |                    |
| Use of the Capital Receipts Reserve to finance new capital expenditure   | -                  | (21,305)           |
| Use of the Major Repairs Reserve to finance new capital expenditure  | (7,262)            | -                  |
| Capital Grants & Contributions credited to the Income and Expenditure Statement that have been applied to capital financing                | (45,395)           | (85,793)           |
| Statutory provision for the financing of capital investment charged against the General Fund and HRA balances                              | (20,180)           | (18,926)           |
| Capital expenditure charged against the General Fund and HRA balances  | (61,015)           | (29,475)           |
| <b>Balance at 31st March</b>   | <b>(1,108,893)</b> | <b>(1,102,588)</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.

|   | 2013/14<br>£000 | 2014/15<br>£000 |
|---|-----------------|-----------------|
| <b>Balance at 1st April</b>   | (1,863)         | (1,947)         |
| 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  | (1,531)         | (546)           |
| Proportion of discounts incurred in previous financial years to be credited to the General Fund Balance in accordance with statutory requirements   | 1,447           | 1,103           |
| <b>Balance at 31st March</b>  | <b>(1,947)</b>  | <b>(1,390)</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 | (84)            | 557             |

### ***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.

|   | 2013/14<br>£000 | 2014/15<br>£000 |
|---|-----------------|-----------------|
| <b>Balance at 1st April</b>                                   | (52)            | (103)           |
| Transfer to the Capital Receipts Reserve upon receipt of cash | 11              | 5               |
| Write-off of debt (re-possession)                             | -               |                 |
| Other   | (62)            | (3)             |
| <b>Balance at 31st March</b>                                  | <b>(103)</b>    | <b>(101)</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.

|  | 2013/14<br>£000 | 2014/15<br>£000 |
|--|-----------------|-----------------|
| <b>Balance at 1st April</b>  | <b>434,042</b>  | <b>596,792</b>  |
| Remeasurement of the Net Defined Benefit Liability   | 136,603         | 137,863         |
| 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 | 61,356          | 68,749          |
| Employer's pensions contributions and direct payments to pensioners payable in the year  | (35,209)        | (38,976)        |
| <b>Balance at 31st March</b>   | <b>596,792</b>  | <b>764,428</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.

|  | 2013/14<br>£000 | 2014/15<br>£000 |
|--|-----------------|-----------------|
| <b>Balance at 1st April</b>  | (783)           | (1,487)         |
| 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)           | 1,411           |
| <b>Balance at 31st March</b>   | <b>(1,487)</b>  | <b>(76)</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.

|   | 2013/14<br>£000 | 2014/15<br>£000 |
|---|-----------------|-----------------|
| <b>Balance at 1st April</b>   | <b>13,979</b>   | <b>8,642</b>    |
| Settlement or cancellation of accrual made at the end of the preceding year   | (13,979)        | (8,642)         |
| Amounts accrued at the end of the current year  | 8,642           | 7,260           |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | <b>(5,337)</b>  | <b>(1,382)</b>  |
| <b>Balance at 31st March</b>  | <b>8,642</b>    | <b>7,260</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.

|                              | 2013/14<br>£000 | 2014/15<br>£000 |
|------------------------------|-----------------|-----------------|
| <b>Balance at 1st April</b>  | <b>(1,305)</b>  | -               |
| Net Movement in Year         | 1,305           |                 |
| <b>Balance at 31st March</b> | -               | -               |



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

|                   | 2013/14<br>£000 | 2014/15<br>£000 |
|-------------------|-----------------|-----------------|
| Interest received | 812             | 878             |
| Interest paid     | (19,745)        | (19,341)        |

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

|   | 2013/14<br>£000 | 2014/15<br>£000 |
|---|-----------------|-----------------|
| Depreciation  | 35,891          | 33,587          |
| Impairment and downward valuations  | 57,321          | 73,180          |
| Amortisation  | 332             | 490             |
| Increase / (decrease) in creditors  | (7,175)         | 16,671          |
| Increase / (decrease) in debtors  | 2,276           | (1,349)         |
| Increase / (decrease) in inventories  | 470             | 37              |
| Movement in pension liability   | 26,147          | 29,773          |
| Contributions to/(from) Provisions  | 4,496           | -               |
| Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised | 4,109           | 12,976          |
| Other non-cash items charged to the net surplus or deficit on the provision of services           | (81)            | (1,803)         |
|   | <b>123,786</b>  | <b>163,562</b>  |

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

|   | 2013/14<br>£000  | 2014/15<br>£000 |
|---|------------------|-----------------|
| Capital Grants credited to surplus or deficit on the provision of services  | (138,933)        | (80,218)        |
| Net adjustment from the sale of short and long term investments             | 489              | -               |
| Proceeds from the sale of property plant and equipment, investment property | (12,751)         | (12,981)        |
|   | <b>(151,195)</b> | <b>(93,199)</b> |

## 26. Cash Flow Statement – Investing Activities

|  | 2013/14<br>£000 | 2014/15<br>£000 |
|--|-----------------|-----------------|
| Purchase of property, plant and equipment and intangible assets    | (109,391)       | (141,719)       |
| Purchase of short-term and long-term investments                   | (376,810)       | (1,731,987)     |
| Other payments for investing activities                            | (2,451)         | -               |
| Proceeds from sale of property, plant and equipment and int assets | 18,160          | 12,986          |
| Proceeds from short-term and long-term investments                 | 363,812         | 1,735,986       |
| Other receipts from investing activities                           | 115,224         | 76,046          |
| <b>Net Cash Flows from Investing Activities</b>                    | <b>8,544</b>    | <b>(48,688)</b> |

## 27. Cash Flow Statement – Financing Activities

|   | 2013/14<br>£000 | 2014/15<br>£000 |
|---|-----------------|-----------------|
| 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 | (2,988)         | (4,594)         |
| Repayments of short and long-term borrowing   | (1,245)         | (1,196)         |
| Other payments for financing activities   | (2,894)         | 2,382           |
| <b>Net Cash Flows from Financing Activities</b>   | <b>(7,110)</b>  | <b>(3,408)</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 the impact of depreciation, revaluations and impairments and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- The cost of retirement benefits is based on cash flows paid in the year rather than current service cost of benefits accrued in the year
- Expenditure on some support services is budgeted centrally

## *Departmental Income and Expenditure*

| 2014/15                              | 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 | (14,517)                        | (19,380)                            | (38,469)                          | (7,070)                       | <b>(79,436)</b>  |
| Government & non-Gov Grants          | (92,054)                        | (47,767)                            | (9,760)                           | (142,113)                     | <b>(291,694)</b> |
| <b>Total Income</b>                  | <b>(106,571)</b>                | <b>(67,147)</b>                     | <b>(48,229)</b>                   | <b>(149,183)</b>              | <b>(371,130)</b> |
| Employee Expenses                    | 61,074                          | 43,142                              | 54,729                            | 38,688                        | <b>197,633</b>   |
| Other service expenses               | 106,842                         | 115,494                             | 98,766                            | 188,536                       | <b>509,638</b>   |
| Support service recharges            | (7,665)                         | (2,691)                             | (32,739)                          | (3,525)                       | <b>(46,620)</b>  |
| <b>Total Expenditure</b>             | <b>160,251</b>                  | <b>155,945</b>                      | <b>120,756</b>                    | <b>223,699</b>                | <b>660,651</b>   |
| <b>Net Expenditure</b>               | <b>53,680</b>                   | <b>88,798</b>                       | <b>72,527</b>                     | <b>74,516</b>                 | <b>289,521</b>   |

| 2013/14 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 | (16,969)                        | (21,444)                            | (36,780)                          | (6,736)                       | <b>(81,929)</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>(158,699)</b>              | <b>(374,671)</b> |
| Employee Expenses                    | 64,106                          | 45,751                              | 54,177                            | 39,975                        | <b>204,009</b>   |
| Other service expenses               | 94,681                          | 126,029                             | 96,806                            | 205,859                       | <b>523,375</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>229,023</b>                | <b>670,634</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>   |

***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.

| 2013/14  | 2013/14        | 2014/15        |
|--|----------------|----------------|
|  | £000           | £000           |
| Net expenditure in the Departmental Analysis   | 295,963        | 289,521        |
| Net expenditure of services and support services not included in the analysis                            | (26,781)       | (27,780)       |
| Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis | 76,354         | 141,883        |
|  | <b>345,536</b> | <b>403,624</b> |
| Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement      | (48,021)       | (49,633)       |
| Allocation of Recharges  | -              | -              |
| <b>Cost of services in Comprehensive Income and Expenditure Statement</b>                                | <b>297,515</b> | <b>353,991</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.

| 2014/15   | Departmental Analysis | Amounts not Reported to Management for Decision Making | Amounts not included in the I&E Statement | Allocation of Recharges | Cost of Services | Corporate Amounts | Total              |
|---|-----------------------|--|---|-------------------------|------------------|-------------------|--------------------|
|   | £000                  | £000   | £000                                      | £000                    | £000             | £000              | £000               |
| Fees, charges & other service income                | (79,436)              | (79,070)   |   |                         | (158,506)        | (211,168)         | (369,674)          |
| Surplus or deficit on associates and joint ventures |                       |  |   |                         | -                |                   | -                  |
| Interest and investment income                      |                       |  |   |                         | -                | (1,505)           | (1,505)            |
| Income from Council Tax                             |                       |  |   |                         | -                | (84,568)          | (84,568)           |
| Government grants & contributions                   | (291,694)             | (257,933)  |   |                         | (549,627)        | (234,357)         | (783,984)          |
| <b>Total Income</b>                                 | <b>(371,130)</b>      | <b>(337,003)</b>                                       | -   | -                       | <b>(708,133)</b> | <b>(531,598)</b>  | <b>(1,239,731)</b> |
| Employee Expenses                                   | 197,633               | 212,747  |   |                         | 410,380          | 10,905            | 421,285            |
| Other Service Expenses                              | 509,638               | 67,233   |   |                         | 576,871          | 176,881           | 753,752            |
| Support Service Recharges                           | (46,620)              | (12,514)   |   | 59,134                  | -                |                   | -                  |
| Depreciation, Amortisation and Impairments          |                       | 74,873   |   |                         | 74,873           |                   | 74,873             |
| Interest Payments                                   |                       |  |   |                         | -                | 20,741            | 20,741             |
| Precepts and Levies                                 |                       |  |   |                         | -                | 75                | 75                 |
| Payments to Housing Capital Receipts Pool           |                       |  |   |                         | -                | 1,514             | 1,514              |
| Gain or Loss on Disposal of Fixed Assets            |                       |  |   |                         | -                | (271)             | (271)              |
| <b>Total Expenditure</b>                            | <b>660,651</b>        | <b>342,339</b>   | -   | <b>59,134</b>           | <b>1,062,124</b> | <b>209,845</b>    | <b>1,271,969</b>   |
| <b>Net Expenditure</b>                              | <b>289,521</b>        | <b>5,336</b>   | -   | <b>59,134</b>           | <b>353,991</b>   | <b>(321,753)</b>  | <b>32,238</b>      |

| 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)             | (91,650)   | -   | -                       | (372,004)        | -                 | (372,004)          |
| Surplus or deficit on associates and joint ventures | -                     | -  | -   | -                       | -                | -                 | -                  |
| Interest and investment income                      | -                     | -  | -   | -                       | -                | (1,477)           | (1,477)            |
| Income from Council Tax                             | -                     | -  | -   | -                       | -                | (80,419)          | (80,419)           |
| Government grants & contributions                   | (292,742)             | (232,722)  | -   | -                       | (525,464)        | (298,149)         | (823,613)          |
| HRA transfer to/from Reserves                       | -                     | -  | -   | -                       | -                | -                 | -                  |
| <b>Total Income</b>                                 | <b>(573,096)</b>      | <b>(324,372)</b>                                       | -   | -                       | <b>(897,468)</b> | <b>(380,045)</b>  | <b>(1,277,513)</b> |
| Employee Expenses                                   | 204,009               | 234,123  | -   | -                       | 438,132          | -                 | 438,132            |
| Other Service Expenses                              | 721,800               | 2,967  | (39,107)                                  | -                       | 685,660          | (17,752)          | 667,908            |
| Support Service Recharges                           | (56,750)              | (9,711)  | -   | 66,461                  | -                | -                 | -                  |
| Depreciation, Amortisation and Impairments          | -                     | 78,304   | -   | -                       | 78,304           | -                 | 78,304             |
| 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)            |
| HRA transfer to/from Reserves                       | -                     | -  | -   | -                       | -                | -                 | -                  |
| <b>Total Expenditure</b>                            | <b>869,059</b>        | <b>298,570</b>   | <b>(39,107)</b>                           | <b>66,461</b>           | <b>1,194,983</b> | <b>1,445</b>      | <b>1,196,428</b>   |
| <b>Net Expenditure</b>                              | <b>295,963</b>        | <b>(25,802)</b>  | <b>(39,107)</b>                           | <b>66,461</b>           | <b>297,515</b>   | <b>(378,600)</b>  | <b>(81,085)</b>    |

## 29. Acquired & Discounted Operations

There were no acquired or discontinued operations in 2014/15.

## 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 five trading operations which provide internal support to front line services. Trading operations are given a targeted budget position to work towards, which may be a surplus, deficit or break-even.

|                         | 2013/14         |               |                       | 2014/15         |               |                       |
|-------------------------|-----------------|---------------|-----------------------|-----------------|---------------|-----------------------|
|                         | Turnover        | Expenditure   | (Surplus)/<br>Deficit | Turnover        | Expenditure   | (Surplus)/<br>Deficit |
|                         | £000            | £000          | £000                  | £000            | £000          | £000                  |
| City Catering           | (7,713)         | 7,713         | -                     | (7,749)         | 7,749         | -                     |
| City Highways           | (9,658)         | 9,587         | (71)                  | (9,167)         | 9,218         | 51                    |
| City Transport Fleet    | (7,091)         | 6,447         | (644)                 | (7,324)         | 5,742         | (1,582)               |
| Passenger and Transport | (7,540)         | 7,428         | (112)                 | (5,277)         | 5,166         | (111)                 |
| I.T. Services           | (1,831)         | 1,684         | (147)                 | (1,243)         | 1,378         | 135                   |
| <b>Total</b>            | <b>(33,833)</b> | <b>32,859</b> | <b>(974)</b>          | <b>(30,760)</b> | <b>29,253</b> | <b>(1,507)</b>        |

### ***City Catering***

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

### ***City Highways***

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

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

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

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

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

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

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

## **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:

|   | <b>2013/14<br/>£000</b> | <b>2014/15<br/>£000</b> |
|---|-------------------------|-------------------------|
| Expenditure incurred in providing payroll services to Samworth Enterprise Academy | 3.0                     | 3.1                     |
| Amount charged to Samworth Enterprise Academy                                     | (3.0)                   | (3.1)                   |
| <b>Net Surplus</b>  | -                       | -                       |

|   | <b>2013/14<br/>£000</b> | <b>2014/15<br/>£000</b> |
|---|-------------------------|-------------------------|
| Expenditure incurred in providing payroll services to Harborough District Council | 13.3                    | 13.6                    |
| Amount charged to Harborough District Council                                     | (13.3)                  | (13.6)                  |
| <b>Net Surplus</b>  | -                       | -                       |

|   | <b>2013/14<br/>£000</b> | <b>2014/15<br/>£000</b> |
|---|-------------------------|-------------------------|
| Expenditure incurred in providing payroll services to Krishna-Avanti Primary School | 1.4                     | -                       |
| Amount charged to Krishna-Avanti Primary School                                     | (1.4)                   | -                       |
| <b>Net Surplus</b>  | -                       | -                       |

|   | <b>2013/14<br/>£000</b> | <b>2014/15<br/>£000</b> |
|---|-------------------------|-------------------------|
| Expenditure incurred in providing payroll services to Ash Field Academy | 4.7                     | 5.1                     |
| Amount charged to Ash Field Academy                                     | (4.7)                   | (5.1)                   |
| <b>Net Surplus</b>  | -                       | -                       |

|   | 2013/14<br>£000 | 2014/15<br>£000 |
|---|-----------------|-----------------|
| Expenditure incurred in providing payroll services to Sacred Heart Catholic Voluntary Academy | 2.3             | 2.5             |
| Amount charged to Sacred Heart Catholic Voluntary Academy                                     | (2.3)           | (2.5)           |
| <b>Net Surplus</b>  | -               | -               |

|   | 2013/14<br>£000 | 2014/15<br>£000 |
|---|-----------------|-----------------|
| Expenditure incurred in providing payroll services to St. Joseph's Catholic Voluntary Academy | 3.2             | 3.2             |
| Amount charged to St. Joseph's Catholic Voluntary Academy                                     | (3.2)           | (3.2)           |
| <b>Net Surplus</b>  | -               | -               |

|  | 2013/14<br>£000 | 2014/15<br>£000 |
|--|-----------------|-----------------|
| Expenditure incurred in providing payroll services to St. Thomas More Catholic Voluntary Academy | 3.1             | 3.2             |
| Amount charged to St. Thomas More Catholic Voluntary Academy                                     | (3.2)           | (3.2)           |
| <b>Net Surplus</b>   | <b>(0.1)</b>    | -               |

|   | 2013/14<br>£000 | 2014/15<br>£000 |
|---|-----------------|-----------------|
| Expenditure incurred in providing payroll services to Humberstone Academy | 2.1             | 4.2             |
| Amount charged to Humberstone Academy                                     | (2.1)           | (4.2)           |
| <b>Net Surplus</b>  | -               | -               |

|   | 2013/14<br>£000 | 2014/15<br>£000 |
|---|-----------------|-----------------|
| Expenditure incurred in providing payroll services to Falcons Primary Free School | -               | 2.1             |
| Amount charged to Falcons Primary Free School                                     | -               | (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 Groups (CCGs) in the areas covered by the councils. Leicester City Council acts as the host partner. The City Council contributed £0.88m (Adult Social Care contribution of £0.83m and Education contribution of £0.05m) to the pool during 2014/15 (£0.7m in 2013/14) and this expenditure is also included in the Adult Social Care line and the Education line of the Comprehensive Income and Expenditure Statement.

|   | <b>2013/14<br/>£000</b> | <b>2014/15<br/>£000</b> |
|---|-------------------------|-------------------------|
| <b>Funding provided to the pooled budget:</b>   |                         |                         |
| Leicester City Council  | 714                     | 879                     |
| Leicestershire County Council   | 1,342                   | 1,690                   |
| Rutland County Council  | 72                      | 91                      |
| Leicestershire County and Rutland Primary Care Trust  | -                       | -                       |
| Leicester Primary Care Trust  | -                       | -                       |
| Leicester City CCG  | 1,340                   | 1,637                   |
| East Leicestershire and Rutland CCG   | 1,655                   | 1,922                   |
| West West Leicestershire CCG  | 1,881                   | 2,116                   |
| <b>Total Funding provided to the pooled budget</b>  | <b>7,004</b>            | <b>8,335</b>            |
| <b>Total expenditure met from the pooled budget</b>   | <b>7,004</b>            | <b>8,335</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 a range of health and social care interventions for individuals with problematic substance misuse issues. The City Council contributed £6.3m to the pool during 2014/15 (£6.3m in 2013/14) and this expenditure is also included in the Adult Social Care line and the Public Health line of the Comprehensive Income and Expenditure Statement.

|   | 2013/14<br>£000 | 2014/15<br>£000 |
|---|-----------------|-----------------|
| <b>Funding provided to the pooled budget:</b>   |                 |                 |
| Leicester City Council  | 656             | -               |
| Leicester City Council - Public Health  | 5,642           | 6,283           |
| Leicestershire County Council - Public Health   | 888             | 888             |
| Rutland County Council - Public Health  | 46              | 46              |
| Leicestershire Police and Crime Commissioner  | 520             | 509             |
| NHS England   | 488             | 651             |
| Leicester Primary Care Trust  | -               | 963             |
| <b>Total Funding provided to the pooled budget</b>  | <b>8,240</b>    | <b>9,340</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:

|                                 | 2013/14<br>£   | 2014/15<br>£   |
|---------------------------------|----------------|----------------|
| Basic Allowance Payments        | 539,536        | 540,593        |
| Special Responsibility Payments | 346,061        | 346,910        |
| General Expense Payments        | 78,482         | 76,775         |
| <b>Total</b>                    | <b>964,079</b> | <b>964,278</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 2014/15, 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 2014/15 with comparative data from 2013/14 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, employer's pension contributions, taxable benefits and any compensation for loss of office.

| Post   | Financial Year | Salary, Fees and Allowances | Expenses | Pension Contributions | Compensation for loss of employment | Total          |
|--|----------------|-----------------------------|----------|-----------------------|-------------------------------------|----------------|
|  |                | £                           | £        | £                     | £                                   | £              |
| Chief Operating Officer<br>(Head of Paid Service)        | 2014/15        | 127,581                     | -        | 25,115                | -                                   | <b>152,696</b> |
|  | 2013/14        | 137,560                     | 18       | 21,353                | -                                   | <b>158,931</b> |
| Director Delivery, Communications & Political Governance | 2014/15        | 86,003                      | -        | 16,943                | -                                   | <b>102,946</b> |
|  | 2013/14        | 96,304                      | -        | 18,009                | -                                   | <b>114,313</b> |
| Director of Finance                                      | 2014/15        | 83,790                      | -        | 15,937                | -                                   | <b>99,727</b>  |
|  | 2013/14        | 79,674                      | -        | 14,899                | -                                   | <b>94,573</b>  |
| City Barrister & Head of Standards (Note 1)              | 2014/15        | 69,732                      | -        | 13,737                | -                                   | <b>83,469</b>  |
|  | 2013/14        | 80,619                      | -        | 15,076                | -                                   | <b>95,695</b>  |
| Strategic Director - Children's Services (Note 2)        | 2014/15        | 59,232                      | -        | 11,669                | -                                   | <b>70,901</b>  |
|  | 2013/14        | -                           | -        | -                     | -                                   | -              |
| Director of Housing                                      | 2014/15        | 86,003                      | -        | 15,472                | -                                   | <b>101,475</b> |
|  | 2013/14        | 85,575                      | -        | 16,002                | -                                   | <b>101,577</b> |
| Strategic Director - Adult Social Care & Health (Note 3) | 2014/15        | 92,756                      | -        | 12,986                | -                                   | <b>105,742</b> |
|  | 2013/14        | 109,789                     | -        | 15,360                | -                                   | <b>125,149</b> |
| Strategic Director - City Development & Neighbourhoods   | 2014/15        | 120,354                     | -        | 22,902                | -                                   | <b>143,256</b> |
|  | 2013/14        | 114,735                     | -        | 21,455                | -                                   | <b>136,190</b> |
| Director of Information Services (Note 4)                | 2014/15        | 77,529                      | -        | 13,939                | 38,569                              | <b>130,037</b> |
|  | 2013/14        | 85,575                      | -        | 16,002                | -                                   | <b>101,577</b> |
| Director of Public Health (Note 5)                       | 2014/15        | 88,393                      | -        | 12,375                | -                                   | <b>100,768</b> |
|  | 2013/14        | 87,246                      | -        | 12,214                | -                                   | <b>99,460</b>  |

Notes:

- 1) The City Barrister reduced their working hours from full time to part time during 2013/14
- 2) The Strategic Director of Children's Services was appointed on 18<sup>th</sup> September 2014
- 3) The Strategic Director of Adult Social Care & Health left the Council in January 2015 and had not been replaced at 31<sup>st</sup> March 2015
- 4) The Director of Information Services left the Council in January 2015 and has not been replaced
- 5) The Director of Public Health has been included following a change in structure in 2014/15 whereby they now report to the Chief Operating Officer, having previously reported to the Strategic Director for Adult Social Care & Health

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

The number of other Council employees receiving more than £50,000 remuneration for the year are shown in the table below. These figures include teaching, senior leadership and support staff within Local Authority schools. They exclude officers in the roles specifically listed in the table above.

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

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

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

| Remuneration Band<br>£ | Number of Employees |            |            |            |            |            |
|------------------------|---------------------|------------|------------|------------|------------|------------|
|                        | Non-Schools         |            | Schools    |            | Total      |            |
|                        | 2013/14             | 2014/15    | 2013/14    | 2014/15    | 2013/14    | 2014/15    |
| 50,000-54,999          | 45                  | 45         | 65         | 63         | 110        | 108        |
| 55,000-59,999          | 32                  | 24         | 49         | 55         | 81         | 79         |
| 60,000-64,999          | 26                  | 27         | 37         | 36         | 63         | 63         |
| 65,000-69,999          | 6                   | 8          | 25         | 33         | 31         | 41         |
| 70,000-74,999          | 3                   | 1          | 10         | 15         | 13         | 16         |
| 75,000-79,999          | 0                   | 2          | 6          | 7          | 6          | 9          |
| 80,000-84,999          | 6                   | 2          | 3          | 4          | 9          | 6          |
| 85,000-89,999          | 5                   | 7          | 6          | 2          | 11         | 9          |
| 90,000-94,999          | 0                   | 0          | 2          | 2          | 2          | 2          |
| 95,000-99,999          | 1                   | 0          | 2          | 3          | 3          | 3          |
| 100,000-104,999        | 0                   | 0          | 1          | 1          | 1          | 1          |
| 105,000-109,999        | 1                   | 0          | 4          | 2          | 5          | 2          |
| 110,000-114,999        | 0                   | 0          | 0          | 2          | 0          | 2          |
| 115,000-119,999        | 0                   | 0          | 1          | 1          | 1          | 1          |
| 120,000-124,999        | 0                   | 0          | 1          | 0          | 1          | 0          |
| 125,000-129,999        | 0                   | 0          | 0          | 1          | 0          | 1          |
| 130,000-134,999        | 0                   | 0          | 0          | 0          | 0          | 0          |
| <b>Total</b>           | <b>125</b>          | <b>116</b> | <b>212</b> | <b>227</b> | <b>337</b> | <b>343</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:

|   | 2013/14<br>£000 | 2014/15<br>£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                           | 89              | 70              |
| Fees payable in respect of other services provided during the year                                    | 2               | 11              |
| <b>Total</b>  | <b>285</b>      | <b>276</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 2014/15 are as follows:

| 2014/15  | Central<br>Expenditure<br>£000 | Individual<br>Schools<br>Budget<br>£000 | Total<br>£000  |
|--|--------------------------------|---|----------------|
| <b>Final DSG for 2014/15 before Academy recoupment</b> |                                |   | <b>264,731</b> |
| Academy figure recouped for 2014/15                    |                                |   | (7,573)        |
| <b>Total DSG after Academy recoupment for 2014/15</b>  |                                |   | <b>257,158</b> |
| Brought forward from 2013/14                           |                                |   | 14,585         |
| Carry forward to 2015/16 agreed in advance             |                                |   | -              |
| <b>Agreed initial budgeted distribution in 2014/15</b> | <b>61,378</b>                  | <b>210,365</b>                          | <b>271,743</b> |
| In year adjustments                                    |                                |   | -              |
| <b>Final budgeted distribution for 2014/15</b>         | <b>61,378</b>                  | <b>210,365</b>                          | <b>271,743</b> |
| Actual central expenditure for the year                | (41,576)                       |   | (41,576)       |
| Actual ISB deployed to schools                         |                                | (210,365)                               | (210,365)      |
| Local Authority contribution for 2014/15               |                                |   | -              |
| <b>Carry forward to 2015/16</b>                        | <b>19,802</b>                  | -                                       | <b>19,802</b>  |

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

### **38. Grant Income**

The Council received the following revenue and capital grants in 2014/15. 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>2013/14<br/>£000</b> | <b>2014/15<br/>£000</b> |
|--|-------------------------|-------------------------|
| <b>Credited to Services (All REFCUS related)</b> |                         |                         |
| Disabled Facilities Grant                        | 848                     | -                       |
| CCG Disabled Facilities Grant Contribution       | 500                     | -                       |
| DCLG City Deal for LLEP                          | -                       | 1,800                   |
| DCLG Household Waste Recycling Centre            | -                       | 2,515                   |
| DFT Maintenance Grant                            | -                       | 180                     |
| Heritage Lottery Fund                            | -                       | 405                     |
| Sustrans Grant                                   | -                       | 163                     |
| DFT Cleaner Bus Technology                       | 530                     | -                       |
| Working Neighbourhood Fund                       | -                       | 168                     |
| Growing Places                                   | 4,094                   | -                       |
| Regional Growth Fund                             | 1,296                   | 8,289                   |
| DFE Capital Maintenance                          | -                       | -                       |
| Devolved Formula Capital                         | 1,056                   | -                       |
| Building Schools for the Future                  | 27,191                  | 475                     |
| HCA Empty Homes Leasing                          | 98                      | -                       |
| Repayable Home Repair Grants                     | 311                     | -                       |
| Others   | 77                      | 108                     |
| <b>Total Credited to Services</b>                | <b>36,001</b>           | <b>14,103</b>           |

|   | 2013/14<br>£000 | 2014/15<br>£000 |
|---|-----------------|-----------------|
| <b>Credited to Taxation &amp; Non-Specific Grant Income</b>       |                 |                 |
| Adult Social Care Grants  | -               | 863             |
| Building Schools for the Future                                   | 35,548          | 33,731          |
| Community Capacity Grant  | 1,674           | -               |
| Devolved Formula Capital Grant                                    | -               | 3,174           |
| DFT Maintenance Grant   | 2,599           | 2,291           |
| DFT Bus Pinch Point   | 2,400           | -               |
| DFT Integrated Transport Grant                                    | 3,957           | 4,171           |
| DFT Pothole Monies  | -               | 646             |
| DFT Better Bus and other contributions to RTI                     | 784             | -               |
| European Regional Development Fund                                | 2,469           | 6,964           |
| Heritage Lottery Fund   | 98              | -               |
| Football Foundation Grant & Other Partner Contributions           | -               | -               |
| DFE Capital Maintenance   | 11,812          | 4,542           |
| DFE Basic Need  | 27,305          | 10,195          |
| DFE Two Year Old Entitlement                                      | 794             | -               |
| DFE Priority School Building Programme                            | -               | 180             |
| DFT Local Sustainable Transport Fund                              | 651             | 745             |
| Working Neighbourhood Fund  | 167             | 236             |
| Sustrans Grant  | 550             | -               |
| Aiming High for Disabled Children Grant                           | -               | -               |
| Disabled Facilities Grant   | -               | 867             |
| Arts Council  | 114             | -               |
| DEFRA   | 71              | 12              |
| HCA Empty Homes Leasing   | -               | 2,277           |
| HCA Travellers Sites  | -               | 1,828           |
| Growing Places  | 7,450           | -               |
| S106 Contributions  | 89              | 901             |
| Leicestershire County Council                                     | 150             | -               |
| CCG Capital Contribution  | 600             | -               |
| DCLG Household Waste  | 118             | 901             |
| Others  | 4,135           | 1,865           |
| <b>Total Credited to Taxation &amp; Non-Specific Grant Income</b> | <b>103,535</b>  | <b>76,389</b>   |

## Revenue Grants

|   | 2013/14<br>£000 | 2014/15<br>£000 |
|---|-----------------|-----------------|
| <b>Credited to Taxation &amp; Non-Specific Grant Income</b>       |                 |                 |
| Revenue Support Grant   | 135,496         | 108,651         |
| <b>Total Credited to Taxation &amp; Non-Specific Grant Income</b> | <b>135,496</b>  | <b>108,651</b>  |
| <b>Credited to Services</b>                                       |                 |                 |
| <b><u>Children's and Education Services</u></b>                   |                 |                 |
| Pupil Premium   | 15,271          | 18,705          |
| Dedicated Schools Grant (see note 37)                             | 241,609         | 251,915         |
| Other Education   | 26,492          | 32,417          |
| <b><u>Adults and Housing</u></b>                                  |                 |                 |
| Drug Intervention Programme                                       | 1,053           | 1,160           |
| Adult Pooled Treatment  | 2,681           | 3,070           |
| Housing Benefit Subsidies   | 136,172         | 133,608         |
| Other Adults and Housing  | 2,158           | 9,670           |
| <b><u>Public Health</u></b>                                       |                 |                 |
| Public Health Grant   | 19,995          | 21,995          |
| <b><u>City Development and Neighbourhoods</u></b>                 |                 |                 |
| Waste PFI   | 2,088           | 2,074           |
| Other City Development and Neighbourhoods                         | 3,784           | 3,433           |
| <b><u>Corporate and Resources</u></b>                             |                 |                 |
| Local Services Support Grant                                      | 171             | 148             |
| Housing Benefit & Council Tax benefit Admin Grant                 | 3,421           | 2,158           |
| New Homes Bonus Scheme  | 4,618           | 6,224           |
| Section 31 Grants   | -               | 4,346           |
| Community Care Grant  | 1,946           | 2,900           |
| Elections   | 39              | 590             |
| Other Corporate and Resources                                     | 351             | 222             |
| <b>Total Credited to Services</b>                                 | <b>461,849</b>  | <b>494,635</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 have not yet been met. The balances at the year-end are as follows:

## Capital Receipts in Advance

|   | 2014/15<br>£000 |
|---|-----------------|
| <b>Capital Grants Receipts in Advance</b>         |                 |
| Devolved Formula Capital Grant                    | 3,305           |
| DFT Bus Pinch Point                               | 1,100           |
| DCLG City Deal for LLEP                           | 200             |
| DFT Severe Weather Capital Maintenance Allocation | 92              |
| DEFRA   | 31              |
| DFT Cleaner Bus Technology                        | 71              |
| Others  | (311)           |
| <b>Total Received in Advance</b>                  | <b>4,488</b>    |



## **Revenue Receipts in Advance**

|   | 2013/14<br>£000 | 2014/15<br>£000 |
|---|-----------------|-----------------|
| <b>Receipts in Advance</b>                        |                 |                 |
| <b><u>Children's and Education Services</u></b>   |                 |                 |
| Early Intervention Grant                          | 2,915           | 2,915           |
| Other Education                                   | 5,428           | 7,210           |
| <b><u>Adults and Housing</u></b>                  |                 |                 |
| Social Care Reform                                | 826             | 826             |
| Other Adults and Housing                          | 915             | 1,653           |
| <b><u>City Development and Neighbourhoods</u></b> |                 |                 |
| City Development and Neighbourhoods               | 766             | 976             |
| <b><u>Corporate and Resources</u></b>             |                 |                 |
| Other Resources                                   | -               | 36              |
| <b>Total Receipts in Advance</b>                  | <b>10,850</b>   | <b>13,616</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. The value of transactions in 2014/15 was £6,585. The property is leased at a market rent

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

***Leicester Community Sports Arena Ltd***

During 2014/15, this company was created by the Leicester Riders Foundation. The purpose of the company is to build and operate a new venue for the Leicester Riders basketball team and other community sports.

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

The Council owns the land on which the arena is to be built, which will be leased to the company for a market rent once the arena is complete. The Council is also providing £1.5m grant funding to the company to support the development (of which £0.84m was paid in 2014/15), alongside Sport England, Leicester College and the Leicester & Leicestershire Enterprise Partnership (for whom the Council is the accountable body).

***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 £632k in 2014/15.

***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 eleven members of the board, currently Cllr Bill Shelton and Colin Sharpe (Head of Finance – City Development & Neighbourhoods). The Council provided grant funding and payment for services totalling £307k in 2014/15.

***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.

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

ESPO 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 resigned its membership of ESPO during 2014/15 and has no further role in the organisation.

### ***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. Leicester City Council own 50% of each company.

Connexions Leicester Shire Service Ltd was put into members' voluntary liquidation during 2014/15. As a result of this a final distribution of resources was made to the Council and Leicestershire County Council. The City Council's share of the distribution was £0.66m.

Connexions Leicester Shire Trading Ltd is still in existence but has no significant activities or assets. It will be wound up during 2015/16.

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

The King Richard III Trust operates the King Richard III Visitor Centre. It was created in 2013/14.

During 2014/15 the Council was a member of the trust and three of the Trust's board members were connected with the Council – Frank Jordan (Strategic Director of City Development & Neighbourhoods), Cllr Piara Singh Clair (Assistant Mayor for Culture, Leisure & Sport) and Liz Blyth (Director of Culture & Neighbourhood Services).

The Council has resigned any formal membership of the Trust and the Trust now operates as an independent entity. At 31<sup>st</sup> March 2015, Frank Jordan had ceased to be a board member of the Trust whilst Cllr Singh Clair and Liz Blyth remain as two of nine directors. The Council has no nomination rights to the board of the Trust.

#### **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.

|   | <b>2013/14<br/>£000</b> | <b>2014/15<br/>£000</b> |
|---|-------------------------|-------------------------|
| <b>Opening Capital Financing Requirement</b>  | <b>533,573</b>          | <b>567,895</b>          |
| <b>Capital Investment</b>   |                         |                         |
| Property, Plant and Equipment   | 162,798                 | 135,332                 |
| Intangible Assets   | 807                     | 594                     |
| Long Term Investment  | (2,290)                 |                         |
| Revenue Expenditure Funded Under Capital Statute  | 42,506                  | 49,968                  |
| <b>Sources of Finance</b>   |                         |                         |
| Capital Receipts  | -                       | (21,305)                |
| Government Grants & Other Contributions   | (81,396)                | (85,793)                |
| Sums set aside from revenue:  |                         |                         |
| Direct Revenue Contributions  | (67,924)                | (36,639)                |
| (MRP/Loans Fund Principal)  | (20,179)                | (18,925)                |
| <b>Closing Capital Financing Requirement</b>  | <b>567,895</b>          | <b>591,127</b>          |
| Increase/Decrease in underlying need to borrowing<br>(unsupported by government financial assistance) | (10,276)                | 23,071                  |
| HRA CFR adjustment  | -                       |                         |
| Assets acquired under Finance Leases  | -                       |                         |
| Assets acquired under PFI/PPP contracts   | 44,598                  | 161                     |
| <b>Increase/(Decrease) in CFR</b>   | <b>34,322</b>           | <b>23,232</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 2014<br>£000 | 31st March 2015<br>£000 |
|-------------------------------|-------------------------|-------------------------|
| Other Land and Buildings      | 1,629                   | 1,548                   |
| Vehicles, Plant and Equipment | 635                     | 418                     |
| <b>Total</b>                  | <b>2,264</b>            | <b>1,966</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 2014<br>£000 | 31st March 2015<br>£000 |
|---------------------------------------|-------------------------|-------------------------|
| Finance lease liabilities             | 1,057                   | 812                     |
| Finance costs payable in future years | 548                     | 436                     |
| <b>Total minimum lease payments</b>   | <b>1,605</b>            | <b>1,248</b>            |

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

|                     | Minimum Lease Payments  |                         | Finance Lease Liabilities |                         |
|---------------------|-------------------------|-------------------------|---------------------------|-------------------------|
|                     | 31st March 2014<br>£000 | 31st March 2015<br>£000 | 31st March 2014<br>£000   | 31st March 2015<br>£000 |
| Within one year     | 356                     | 238                     | 244                       | 139                     |
| Within 2 to 5 years | 809                     | 708                     | 498                       | 429                     |
| Later than 5 years  | 439                     | 302                     | 314                       | 244                     |
| <b>Total</b>        | <b>1,604</b>            | <b>1,248</b>            | <b>1,056</b>              | <b>812</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<br>£000 | Buildings<br>£000 | Total<br>£000 |
|--|------------------|-------------------|---------------|
| Not later than one year                        |                  | 721               | 721           |
| Later than one year and not later than 5 years |                  | 2,759             | 2,759         |
| Later than 5 years                             |                  | 3,463             | 3,463         |
| <b>Total</b>                                   | -                | <b>6,943</b>      | <b>6,943</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>Finance Lease Debtor</b>          | <b>31st March 2015<br/>£000</b> |
|--------------------------------------|---------------------------------|
| Current                              | (1)                             |
| Non-current                          | 69                              |
| Unearned Finance Income              | 303                             |
| <b>Gross Investment in the lease</b> | <b>371</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 2015<br/>£000</b> |
|-------------------------------|---------------------------------|
| Within one year               | 2                               |
| Within 2 to 5 years           | 14                              |
| Later than 5 years            | 355                             |
|                               | <b>371</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 2014<br/>£000</b> | <b>31st March 2015<br/>£000</b> |
|--|---------------------------------|---------------------------------|
| Not later than one year                        | 3,780                           | 3,712                           |
| Later than one year and not later than 5 years | 10,311                          | 10,478                          |
| Later than 5 years                             | 68,272                          | 68,978                          |
| <b>Total</b>                                   | <b>82,363</b>                   | <b>83,168</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.

2014/15 was the twelfth year of the operation of the contract, costing £13.484m (£13.287m in 2013/14).

### *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<br/>&amp; Buildings<br/>£000</b> | <b>Vehicles, Plant<br/>&amp; Equipment<br/>£000</b> | <b>Total<br/>£000</b> |
|-----------------------------------|--|---|-----------------------|
| Balance at 1st April 2014         | 12,724   | 4,682   | 17,406                |
| Depreciation                      |  | 161   | 161                   |
| Additions                         | (709)  | (1,133)   | (1,842)               |
| <b>Balance at 31st March 2015</b> | <b>12,015</b>                                  | <b>3,710</b>  | <b>15,725</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 2015 (excluding future inflation) are as follows:

|                       | <b>Payment for<br/>Services<br/>£000</b> | <b>Reimbursement<br/>of Capital<br/>Expenditure<br/>£000</b> | <b>Interest<br/>£000</b> | <b>Total<br/>£000</b> |
|-----------------------|--|--|--------------------------|-----------------------|
| Within 1 year         | 6,509                                    | 2,048  | 795                      | 9,352                 |
| Within 2 to 5 years   | 26,137                                   | 7,834  | 3,320                    | 37,291                |
| Within 6 to 10 years  | 33,201                                   | 10,109   | 3,059                    | 46,369                |
| Within 11 to 15 years | 20,814                                   | 6,078  | 867                      | 27,759                |
| Within 16 to 20 years |  |  |                          | -                     |
| <b>Total</b>          | <b>86,661</b>                            | <b>26,069</b>  | <b>8,041</b>             | <b>120,771</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:

|                                  | 2013/14<br>£000 | 2014/15<br>£000 |
|----------------------------------|-----------------|-----------------|
| Balance outstanding at 1st April | 14,744          | 12,781          |
| Payments during the year         | (1,963)         | (1,949)         |
| Additions                        | -               | 161             |
| <b>Balance at 31st March</b>     | <b>12,781</b>   | <b>10,993</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 2014/15 was therefore the sixth year of the operation of the contract costing £6.44m.

#### *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<br>£000 |
|-----------------------------------|-------------------------------------|
| Balance at 1st April 2014         | 30,835                              |
| Depreciation                      | (642)                               |
| <b>Balance at 31st March 2015</b> | <b>30,193</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 2015 are as follows:

|                       | Payment for<br>Services<br>£000 | Reimbursement<br>of Capital<br>Expenditure<br>£000 | Interest<br>£000 | Total<br>£000  |
|-----------------------|---------------------------------|--|------------------|----------------|
| Within 1 year         | 1,651                           | 1,171  | 2,845            | 5,667          |
| Within 2 to 5 years   | 8,990                           | 3,230  | 10,448           | 22,668         |
| Within 6 to 10 years  | 11,081                          | 5,998  | 11,256           | 28,335         |
| Within 11 to 15 years | 11,691                          | 8,636  | 8,007            | 28,334         |
| Within 16 to 20 years | 7,853                           | 12,645   | 3,114            | 23,612         |
| Within 21 to 25 years | -                               | -  | -                | -              |
| <b>Total</b>          | <b>41,266</b>                   | <b>31,680</b>                                      | <b>35,670</b>    | <b>108,616</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:

|                                  | 2013/14<br>£000 | 2014/15<br>£000 |
|----------------------------------|-----------------|-----------------|
| Balance outstanding at 1st April | 33,227          | 32,702          |
| Payments during the year         | (525)           | (1,021)         |
| <b>Balance at 31st March</b>     | <b>32,702</b>   | <b>31,681</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. 2014/15 was the second year of the operation of the contract costing £6.5m.

#### *Property Plant and Equipment*

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

|                                 | Other Land & Buildings<br>£000 |
|---------------------------------|--------------------------------|
| Balance at 31 March 2014        | 33,852                         |
| Depreciation                    | (910)                          |
| Revaluations/Impairment         | (10,746)                       |
| <b>Balance at 31 March 2015</b> | <b>22,196</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<br>£000 | Reimbursement of Capital Expenditure<br>£000 | Interest<br>£000 | Lifecycle Capital Replacement<br>£000 | Total<br>£000  |
|-----------------------|------------------------------|--|------------------|---------------------------------------|----------------|
| Within 1 year         | 1,969                        | 1,198  | 2,952            | 107                                   | 6,226          |
| Within 2 to 5 years   | 7,876                        | 5,178  | 10,948           | 906                                   | 24,908         |
| Within 6 to 10 years  | 9,844                        | 6,686  | 11,622           | 2,982                                 | 31,134         |
| Within 11 to 15 years | 9,844                        | 7,711  | 9,308            | 4,271                                 | 31,134         |
| Within 16 to 20 years | 9,844                        | 11,464                                       | 6,084            | 3,742                                 | 31,134         |
| Within 21 to 25 years | 7,057                        | 10,754                                       | 1,677            | 2,831                                 | 22,319         |
| <b>Total</b>          | <b>46,434</b>                | <b>42,991</b>                                | <b>42,591</b>    | <b>14,839</b>                         | <b>146,855</b> |

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

|                              | 2014/15<br>£000 |
|------------------------------|-----------------|
| Commencing Values            | 44,171          |
| Payments during the year     | (1,179)         |
| <b>Balance at 31st March</b> | <b>42,992</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 2015, are shown below:

|                                 | Vehicles, Plant & Equipment<br>£000 |
|---------------------------------|-------------------------------------|
| Balance at 1 April 2014         | 9,773                               |
| Depreciation                    | (425)                               |
| <b>Balance at 31 March 2015</b> | <b>9,348</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 2015 (excluding future inflation increases but including the final phase due to become operational during 2015/16) are as follows:

|                       | Payment for<br>Services<br>£000 | Reimbursement<br>of Capital<br>Expenditure<br>£000 | Interest<br>£000 | Lifecycle<br>Capital<br>Replacement<br>£000 | Total<br>£000 |
|-----------------------|---------------------------------|--|------------------|---|---------------|
| Within 1 year         | 1,317                           | 112  | 927              | 215   | 2,571         |
| Within 2 to 5 years   | 6,941                           | 646  | 3,796            | 860   | 12,243        |
| Within 6 to 10 years  | 8,676                           | 1,246  | 4,307            | 1,076                                       | 15,305        |
| Within 11 to 15 years | 8,676                           | 2,010  | 3,543            | 1,076                                       | 15,305        |
| Within 16 to 20 years | 8,676                           | 3,242  | 2,311            | 1,076                                       | 15,305        |
| Within 21 to 25 years | 4,619                           | 2,470  | 477              | 538   | 8,104         |
| Within 26 - 30 years  | 418                             | 67   | 3                | -   | 488           |
| <b>Total</b>          | <b>39,323</b>                   | <b>9,793</b>                                       | <b>15,364</b>    | <b>4,841</b>                                | <b>69,321</b> |

### Liability

The liability outstanding to the contractor for capital expenditure incurred up to 31<sup>st</sup> March 2015 is as per the following table:

|   | 2014/15<br>£000 |
|---|-----------------|
| Liability for capital expenditure incurred for operational phases | 9,416           |
| Payments during the year  | (173)           |
| <b>Balance at 31<sup>st</sup> March</b>                           | <b>9,243</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 2014/15.

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

The Council terminated the contracts of a number of employees in 2014/15 incurring liabilities of £3,273k (£3,827k in 2013/14). Of this £2,213k (£2,752k in 2013/14) was for redundancy and other departure costs, and £1,060k (£1,074k in 2013/14) was the cost arising from the early release of pension benefits as required by the regulations of the Local Government Pension Scheme (LGPS).

The number of exit packages with total cost per band and total cost of the exit packages are set out in the table below. In 2014/15 the Council approved 73 compulsory redundancies. Payments arising from these in 2014/15 are included in the figures below:

| <b>Band</b>       | <b>Total number of exit packages by cost band</b> | <b>Total cost of exit packages</b> | <b>Total number of exit packages by cost band</b> | <b>Total cost of exit packages</b> |
|-------------------|---|------------------------------------|---|------------------------------------|
| <b>£</b>          | <b>2013/14</b>                                    | <b>£</b>                           | <b>2014/15</b>                                    | <b>£</b>                           |
| 0 - 20,000        | 271   | 1,806,281                          | 189   | 1,293,411                          |
| 20,001 - 40,000   | 38  | 1,003,936                          | 40  | 1,102,739                          |
| 40,001 - 60,000   | 8   | 381,392                            | 8   | 382,760                            |
| 60,001 - 80,000   | 7   | 453,663                            | 6   | 408,596                            |
| 80,001 - 100,000  | 2   | 181,588                            | 1   | 85,973                             |
| 100,001 - 150,000 | -   | -                                  | -   | -                                  |
| <b>Total</b>      | <b>326</b>  | <b>3,826,860</b>                   | <b>244</b>  | <b>3,273,479</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.

In 2014/15, the council paid £13.9m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2013/14 were £13.6m and 14.1%.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 47.

### ***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 2014/15, 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 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.

|   | 2013/14         | 2014/15         |
|---|-----------------|-----------------|
|   | £000            | £000            |
| <b><u>Comprehensive Income &amp; Expenditure Statement</u></b>  |                 |                 |
| <b>Cost of Services</b>   |                 |                 |
| Current service cost  | 41,165          | 42,916          |
| Past service cost   | 809             | 435             |
| Settlements and curtailments  | (278)           | (331)           |
| <b>Total Service Cost</b>   | <b>41,696</b>   | <b>43,020</b>   |
| <b><u>Financing and Investment Income and Expenditure</u></b>   |                 |                 |
| Expected return on scheme assets  | (35,542)        | (35,723)        |
| Interest cost   | 55,203          | 61,452          |
| <b>Net Interest Cost</b>  | <b>19,661</b>   | <b>25,729</b>   |
| <b>Total Post-employment Benefit charged to the Surplus or Deficit on the Provision of Services</b>               | <b>61,357</b>   | <b>68,749</b>   |
| <b><u>Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement</u></b>         |                 |                 |
| Return on plan assets excluding amounts included in net interest  | 5,619           | (96,627)        |
| Actuarial losses arising from changes in demographic assumptions  | 30,038          | -               |
| Actuarial losses arising from changes in financial assumptions  | 37,472          | 242,858         |
| Other Experience adjustments  | 63,474          | (8,368)         |
| Effect of business combinations & disposals   | -               | -               |
| <b>Total remeasurements recognised in other comprehensive income and expenditure statement</b>                    | <b>136,603</b>  | <b>137,863</b>  |
| <b>Total post-employment Benefit charged to the Comprehensive Income and Expenditure statement</b>                | <b>197,960</b>  | <b>206,612</b>  |
| <b><u>Movement in Reserves Statement</u></b>  |                 |                 |
| Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits | 26,147          | 29,773          |
| <b>Actual amount charged against the General Fund Balance for Employer's contributions payable to the scheme</b>  | <b>(35,209)</b> | <b>(38,976)</b> |

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

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

|  | 2013/14<br>£000  | 2014/15<br>£000  |
|--|------------------|------------------|
| <b>Balance at 1st April</b>                        | <b>1,218,801</b> | <b>1,422,976</b> |
| Current service cost                               | 41,165           | 42,916           |
| Past service costs (including curtailments)        | 809              | 435              |
| Effect of settlements                              | (657)            | (710)            |
| Interest cost                                      | 55,203           | 61,452           |
| Contributions by scheme participants               | 10,910           | 11,233           |
| Benefits paid                                      | (34,239)         | (39,345)         |
| Remeasurements arising from changes in assumptions | 130,984          | 234,490          |
| Effect of business combinations and disposals      | -                | -                |
| <b>Balance at 31st March</b>                       | <b>1,422,976</b> | <b>1,733,447</b> |

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

|  | 2013/14<br>£000 | 2014/15<br>£000 |
|--|-----------------|-----------------|
| <b>Balance at 1st April</b>                                      | <b>784,759</b>  | <b>826,184</b>  |
| Interest income  | 35,542          | 35,723          |
| Effect of settlements  | (378)           | (379)           |
| Contributions by scheme participants                             | 10,910          | 11,233          |
| Employer contributions   | 35,209          | 38,976          |
| Benefits paid  | (34,239)        | (39,345)        |
| Effect of business combinations and disposals                    | -               | -               |
| Return on plan assets excluding amounts included in net interest | (5,619)         | 96,627          |
| <b>Balance at 31st March</b>                                     | <b>826,184</b>  | <b>969,019</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**

|  | 2010/11<br>£000  | 2011/12<br>£000  | 2012/13<br>£000  | 2013/14<br>£000  | 2014/15<br>£000  |
|--|------------------|------------------|------------------|------------------|------------------|
| Present value of funded obligations    | (848,312)        | (962,314)        | (1,165,624)      | (1,369,228)      | (1,676,690)      |
| Present value of unfunded obligations  | (47,765)         | (50,275)         | (53,177)         | (53,748)         | (56,757)         |
| Fair value of assets in the scheme     | 654,805          | 673,061          | 784,759          | 826,184          | 969,019          |
| <b>Surplus/(deficit) in the scheme</b> | <b>(241,272)</b> | <b>(339,528)</b> | <b>(434,042)</b> | <b>(596,792)</b> | <b>(764,428)</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 £1,733.4m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £764.4m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary. Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to March 31<sup>st</sup> 2016 is £37.1m.

The maturity profile is as follows:

|                   | <b>Liability Split</b> | <b>Weighted Average Duration</b> |
|-------------------|------------------------|----------------------------------|
| Active members    | 59.1%                  | 23.7                             |
| Deferred members  | 16.4%                  | 22.9                             |
| Pensioner members | 24.5%                  | 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>2013/14</b> | <b>2014/15</b> |
|--|----------------|----------------|
| <b>Mortality assumptions:</b>  |                |                |
| Longevity at 65 for current pensioners:  |                |                |
| Men  | 22.2           | 22.2           |
| Women  | 24.3           | 24.3           |
| Longevity at 65 for future pensioners:   |                |                |
| Men  | 24.2           | 24.2           |
| Women  | 26.6           | 26.6           |
| Rate of increase in salaries   | 4.6%           | 4.3%           |
| Rate of increase in pensions   | 2.8%           | 2.4%           |
| Rate for discounting scheme liabilities  | 4.3%           | 3.2%           |
| 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:



|  | 2013/14            |                                  | 2014/15            |                                  |
|--|--------------------|----------------------------------|--------------------|----------------------------------|
|  | Bid Values<br>£000 | Percentage<br>of Total<br>Assets | Bid Values<br>£000 | Percentage<br>of Total<br>Assets |
| <b>Equity</b>                          |                    |                                  |                    |                                  |
| Consumer                               | -                  | 0%                               |                    | 0%                               |
| Manufacturing                          | -                  | 0%                               |                    | 0%                               |
| Energy and Utilities                   | -                  | 0%                               |                    | 0%                               |
| Financial Institutions                 | -                  | 0%                               |                    | 0%                               |
| Health and Care                        | -                  | 0%                               |                    | 0%                               |
| Information Technology                 | -                  | 0%                               |                    | 0%                               |
| Other                                  | 30,353             | 4%                               | 30,070             | 3%                               |
| <b>Debt Securities</b>                 |                    |                                  |                    |                                  |
| UK Government                          | 10,223             | 1%                               | 53,162             | 5%                               |
| Other                                  | 59,065             | 7%                               | 39,846             | 4%                               |
| <b>Private Equity</b>                  |                    |                                  |                    |                                  |
| All                                    | 32,421             | 4%                               | 36,767             | 4%                               |
| <b>Real Estate</b>                     |                    |                                  |                    |                                  |
| UK Property                            | 77,235             | 9%                               | 91,827             | 10%                              |
| <b>Investment Fund and Unit Trusts</b> |                    |                                  |                    |                                  |
| Equities                               | 416,548            | 51%                              | 488,577            | 51%                              |
| Bonds                                  | 54,366             | 7%                               | 90,262             | 9%                               |
| Hedge Funds                            | 28,225             | 3%                               | 42,051             | 4%                               |
| Commodities                            | 37,421             | 5%                               | 40,707             | 4%                               |
| Infrastructure                         | 18,745             | 2%                               | 22,843             | 2%                               |
| Other                                  | 42,835             | 5%                               | 17,778             | 2%                               |
| <b>Derivatives</b>                     |                    |                                  |                    |                                  |
| Interest Rate                          |                    |                                  | 5,417              | 1%                               |
| <b>Cash and Cash Equivalents</b>       |                    |                                  |                    |                                  |
| All                                    | 18,747             | 2%                               | 9,712              | 1%                               |
| <b>Total</b>                           | <b>826,184</b>     | <b>100%</b>                      | <b>969,019</b>     | <b>100%</b>                      |

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

##### **MIRA Business Park**

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

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

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

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

#### **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. Whilst there were some favourable developments in the case during 2014/15 it now seems clear that any settlement benefitting the Council will probably require further litigation, with consequent delays in the achievement of any settlement.

#### **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. Investments are also made in unrated building societies considered to be of equivalent credit worthiness.

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

| <b>Investment Type</b> | <b>Maximum Investment Period</b> | <b>Minimum Credit Rating</b>                           | <b>Individual Lending Limit</b>           | <b>Limit for Investment Type</b>  |
|------------------------|----------------------------------|--|---|---|
| Deposits               | 1 year                           | A long term rating of A and a short term rating of F1  | £10m, £1m for unrated building societies. | £80m in the sector as a whole of which no more than £10m may be invested in unrated building societies. |
|                        | 6 months                         | A long term rating of A- and a short term rating of F2 | £10m, £1m for unrated building societies. |   |
| Covered Bonds          | 5 years                          | A long term rating of AA                               | £20m                                      |   |

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

| <b>Investment Type</b>                         | <b>Counterparty</b>   | <b>Maximum Investment Period</b> | <b>Individual Lending Limit</b> | <b>Limit for Investment Type</b>        |
|--|-----------------------|----------------------------------|---------------------------------|---|
| Deposits                                       | Local authority       | 2 Years                          | £20m                            | £100M (all local authority investments) |
| Deposits and Treasury Bills                    | UK Government         | Unlimited                        | Unlimited                       | Unlimited                               |
| Money Market Funds and Money Market Plus Funds | Various Fund Managers | Non specified                    | £20M                            | £60M                                    |

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 £60m at 31<sup>st</sup> March 2015 (£24m 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 2015 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 £88m (£141m as at 31 March 2014), and in relation to investments in the UK Government £17m (£18m as at 31<sup>st</sup> March 2014). 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 2015 was £20m (£20m 31/03/2014). The following matrix is used for both 2013/14 and 2014/15 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 31/03/2015 will be £8.7m (£8.1m 31/03/2014) and that the impaired value of these debts are £11.2m (£11.6m 31/03/2014).

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 2014</b> |                                    | <b>31st March 2015</b> |                                    |
|--------------------------------------|------------------------|------------------------------------|------------------------|------------------------------------|
|                                      | <b>Due<br/>£000</b>    | <b>Impaired<br/>Value<br/>£000</b> | <b>Due<br/>£000</b>    | <b>Impaired<br/>Value<br/>£000</b> |
| Less than three months               | 9,929                  | 9,765                              | 8,972                  | 8,557                              |
| Three to six months                  | 1,643                  | 756                                | 2,038                  | 1,529                              |
| Six months to one year               | 1,007                  | 613                                | 1,556                  | 671                                |
| More than one year                   | 7,292                  | 445                                | 7,338                  | 405                                |
| <b>Total Assets less Liabilities</b> | <b>19,871</b>          | <b>11,579</b>                      | <b>19,904</b>          | <b>11,162</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 2014<br>£m | 31st March 2015<br>£m |
|----------------------------------|-----------------------|-----------------------|
| Less than one year               | -                     | -                     |
| Between one and five years       | -                     | 8.6                   |
| Between five and ten years       | 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 2014<br>£m | 31st March 2015<br>£m |
|----------------------------------|-----------------------|-----------------------|
| Less than one year               | 4.2                   | 4.2                   |
| Between one and five years       | 19.5                  | 27.2                  |
| Between five and ten years       | 30.6                  | 22.3                  |
| Between ten and fifteen years    | 23.4                  | 23.9                  |
| Between fifteen and twenty years | 44.9                  | 43.8                  |
| More than 20 years               | 248.1                 | 244.1                 |

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 2015. 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 £1.7m 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 £45m 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 hold tradable financial instruments in the form of highly credit rated certificates of deposits and UK Government Treasury Bills. The exposure to the price risk of these investments is judged to be immaterial.

### ***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**

Four year summary of transactions:

|  | <b>2011/12<br/>£000</b> | <b>2012/13<br/>£000</b> | <b>2013/14<br/>£000</b> | <b>2014/15<br/>£000</b> |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Cost or valuation at 1st April</b>          |                         |                         |                         |                         |
| Buildings                                      | 2,006                   | 2,591                   | 2,591                   | 2,657                   |
| Civic Silver etc.                              | 950                     | 1,111                   | 1,471                   | 1,471                   |
| Museum Exhibits                                | 46,544                  | 46,586                  | 70,781                  | 70,802                  |
| Statues & Monuments                            | 1                       | 1                       | 1                       | 5,876                   |
| <b>Total cost or valuation</b>                 | <b>49,501</b>           | <b>50,289</b>           | <b>74,844</b>           | <b>80,806</b>           |
| <b>Additions</b>                               |                         |                         |                         |                         |
| Buildings                                      | -                       | -                       | -                       | -                       |
| Civic Silver etc.                              | -                       | -                       | -                       | -                       |
| Museum Exhibits                                | 37                      | -                       | 21                      | 472                     |
| Statues & Monuments                            | -                       | -                       | -                       | -                       |
| <b>Total additions</b>                         | <b>37</b>               | <b>-</b>                | <b>21</b>               | <b>472</b>              |
| <b>Net Revaluation Increases/(Decreases)</b>   |                         |                         |                         |                         |
| Buildings                                      | 585                     | -                       | 66                      | -                       |
| Civic Silver etc.                              | 161                     | 360                     | -                       | -                       |
| Museum Exhibits                                | 5                       | 24,195                  | -                       | 117                     |
| Statues & Monuments                            | -                       | -                       | 5,875                   | -                       |
| <b>Total revaluation Increases/(Decreases)</b> | <b>751</b>              | <b>24,555</b>           | <b>5,941</b>            | <b>117</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>-</b>                |
|  |                         |                         |                         |                         |
| <b>Net Book Value at 31st March</b>            | <b>50,289</b>           | <b>74,844</b>           | <b>80,806</b>           | <b>81,395</b>           |

### ***Heritage Buildings***

A number of Buildings previously included as Community Assets were reclassified as Heritage Assets as part of the 2011/12 Statement Of Accounts; the land and buildings relating to these assets are included as part of the 5 year revaluation cycle employed by the Council, however, none of these assets are charged depreciation as per our stated accounting policy on Heritage Assets (included in Note 1) in

accordance with FRS 30. As at 31<sup>st</sup> March 2015 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 2015 had a net book value of £1.471m.

### ***Museum Exhibits***

Leicester City Council manages a family of five complimentary museums in the City. Museum Exhibits are included in the Balance Sheet at insurance value which is tendered for insurance purposes every 3 years. These were also re-valued during 2012/13 and, together with more recent acquisitions (valued at historic cost), are included in the Balance Sheet as at 31<sup>st</sup> March 2015 at £71.4m

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

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

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

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

The Council's latest Collections Development Policy covers the period 2014-16. It presents an overview of the collections held and sets out priorities for future collecting as well explaining the policy for rationalising and disposing of any items or collections where this is appropriate. Leicester Museums have a dedicated charity, the Friends of the Museum Fund for the City of Leicester, referred to as the City of



Leicester Trust, which oversees money collected through museum donation boxes and other sources and uses it to present exhibits and items for the collections.

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

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

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

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

A large number of these Assets were not previously included on the Council's Balance Sheet but have now all been accounted for. A number were valued during 2012/13 and are included at their insurance value. The rest are included at a nominal value as per our stated accounting policy on Heritage Assets (included within Note 1). As a result a total value of £5.874m is held on the Balance Sheet at 31<sup>st</sup> March 2015.

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

This Statement of Accounts was authorised for presentation on the 30<sup>th</sup> June 2015 by Alison Greenhill CPFA, Director of Finance and s151 Officer. All events up to and including 30<sup>th</sup> June 2015 have been considered in these accounts.

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

| 2013/14<br>(Restated)<br>£000 |  | Note | 2014/15<br>£000 |
|-------------------------------|--|------|-----------------|
|                               | <b>Income</b>  |      |                 |
| 76,542                        | Dwelling Rents   | 5    | 78,736          |
| 1,309                         | Non-dwelling Rents   | 6    | 1,154           |
| 4,962                         | Service Charges  | 6    | 4,735           |
| -                             | HRA Subsidy  | 10   | -               |
| 80                            | Contributions from General Fund  |      | 82              |
| <b>82,893</b>                 | <b>Total Income</b>  |      | <b>84,707</b>   |
|                               | <b>Expenditure</b>   |      |                 |
| 11,758                        | General Management   |      | 9,592           |
| 5,740                         | Special Management   | 3    | 6,974           |
| 27,776                        | Repairs & Maintenance  |      | 32,693          |
| 748                           | Rent, Rates, Taxes & Other Charges   |      | 547             |
| -                             | Negative HRA Subsidy   | 10   | -               |
| 671                           | Contribution to Bad Debt Provision   | 4    | 243             |
| 8,526                         | Depreciation & Impairment of Fixed Assets  | 13   | 10,552          |
| 60                            | Debt Management Expenses   |      | 60              |
| <b>55,279</b>                 | <b>Total Expenditure</b>   |      | <b>60,661</b>   |
| <b>(27,614)</b>               | <b>"Net Cost of HRA Services" as included in the whole authority Comprehensive Income &amp; Expenditure Statement</b>  |      | <b>(24,046)</b> |
| -                             | HRA share of Corporate & Democratic Core   | 16   | 566             |
| -                             | HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services | 16   | -               |
| <b>(27,614)</b>               | <b>"Net Cost of HRA Services"</b>  |      | <b>(23,480)</b> |
| -                             | Exceptional item: Capital Grants & Contributions   | 17   | -               |
| (3,409)                       | (Gain) or Loss on Sale of HRA Assets   |      | (1,270)         |
| 9,637                         | Loan Charges - Interest  |      | 9,714           |
| (68)                          | Investment Interest  |      | (75)            |
| 5,161                         | Pensions - Interest on Liabilities   | 15   | 2,431           |
| (3,323)                       | Pensions - Expected Return on Assets   | 15   | -               |
| <b>(19,616)</b>               | <b>(Surplus) / Deficit for the Year</b>  |      | <b>(12,680)</b> |

## STATEMENT ON MOVEMENT OF HRA BALANCE

| 2013/14<br>£000 |  | Note | 2014/15<br>£000 |
|-----------------|--|------|-----------------|
| (19,616)        | <b>(Surplus) / Deficit for the Year (from above)</b>   |      | (12,680)        |
|                 | <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   | -               |
| 903             | Amounts charged to the HRA for amortisation of Premia and Discounts for the year determined in accordance with statute   |      | 45              |
| (2,609)         | HRA share of contributions to/(from) the Pension Reserve   | 15   | (3,130)         |
| 3,409           | Gain of (Loss) on Sale of HRA Fixed Assets   |      | 1,270           |
| (306)           | Impairment of Fixed Assets   | 13   | (3,642)         |
| 11,417          | Capital Expenditure Financed from Revenue Account  | 11   | 16,614          |
| -               | HRA Set-Aside (MRP)  |      | -               |
| -               | Exceptional item: transfers (from) Capital Receipts Reserve  | 17   | -               |
| -               | Transfers to/(from) the Major Repairs Reserve  | 14   | -               |
| 75              | Transfers to/(from) the Employee Benefits Reserve  |      | (117)           |
| <b>12,889</b>   | <b>Net Movement on the Housing Revenue Account in Year</b>   |      | <b>11,040</b>   |
| (7,744)         | <b>Balance Brought Forward</b>   |      | (14,471)        |
| <b>(14,471)</b> | <b>Balance Carried Forward - 31st March</b>  |      | <b>(16,111)</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.

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

### **2. Changes to Accounting Practice (and 2012/13 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 2015 was £1.322m (£1.375m in 2013/14). This is calculated on a rent and service charge arrears balance of £2.106m (£2.312m in 2013/14).

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

|                                  | 2013/14<br>£000 | 2014/15<br>£000 |
|----------------------------------|-----------------|-----------------|
| Total Rent income from Dwellings | 76,542          | 78,736          |
| Less Housing Benefit             | (47,341)        | (48,840)        |
| <b>Total</b>                     | <b>29,201</b>   | <b>29,896</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 21,846 dwellings at 31<sup>st</sup> March 2015, of which 13,596 were houses or bungalows and 8,250 were flats. During the year the following movements took place:

|  | 2013/14      | 2014/15      |
|--|--------------|--------------|
| Construction of new dwellings              | -            | 96           |
| Right to Buy sales                         | (174)        | (206)        |
| Sales to H.A.s/Losses on Conversions/Other | (9)          | -            |
| <b>Net Increase/(Decrease)</b>             | <b>(183)</b> | <b>(110)</b> |

## **8. Value of HRA Assets**

|                               | 31st March 2014<br>£000 | 31st March 2015<br>£000 |
|-------------------------------|-------------------------|-------------------------|
| <b><u>Operational</u></b>     |                         |                         |
| Dwellings                     | 608,353                 | 623,835                 |
| Other Land & Buildings        | 24,543                  | 14,137                  |
|                               | <b>632,896</b>          | <b>637,972</b>          |
| <b><u>Non-operational</u></b> |                         |                         |
| Other Land & Buildings        | 1,628                   | 88                      |
| <b>Total</b>                  | <b>634,524</b>          | <b>638,060</b>          |

## **9. Vacant Possession Value of Council Dwellings**

The vacant possession value of council dwellings at 31<sup>st</sup> March 2015 was £1,834.8m. At the same date the balance sheet value of council dwellings was £623.8m. The difference of £1,211.0m 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 2014<br>£000 | 31st March 2015<br>£000 |
|--------------------------|-------------------------|-------------------------|
| Vacant possession values | 1,789,272               | 1,834,810               |

## 10. Capital Expenditure

HRA capital expenditure on land, houses and other property in 2014/15 totalled £30,909m, financed as follows:

|                                | 2013/14<br>£000 | 2014/15<br>£000 |
|--------------------------------|-----------------|-----------------|
| Major Repairs Reserve          | 7,262           | 6,796           |
| Use of borrowing               | 3,306           | 5,138           |
| Government grants              | -               | -               |
| Other grants and contributions | -               | -               |
| Usable capital receipts        | -               | 2,361           |
| Financing from revenue account | 11,218          | 16,614          |
| <b>Total</b>                   | <b>21,786</b>   | <b>30,909</b>   |

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

## 11. Capital Disposals

HRA capital disposals in 2014/15 were as follows:

|                          | 2013/14                  | 2014/15                     |                              |                          |
|--------------------------|--------------------------|-----------------------------|------------------------------|--------------------------|
|                          | Total<br>Receipt<br>£000 | Usable/<br>Retained<br>£000 | Pooled/<br>Set aside<br>£000 | Total<br>Receipt<br>£000 |
| Right to Buy (RTB) sales | 6,795                    | 3,925                       | 4,356                        | 8,281                    |
| Non-RTB sales            | 380                      | 35                          | -                            | 35                       |
| Mortgages                | -                        | -                           | -                            | -                        |
| <b>Total</b>             | <b>7,175</b>             | <b>3,960</b>                | <b>4,356</b>                 | <b>8,316</b>             |

## 12. Depreciation & Impairment of Fixed Assets

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

|                        | 2013/14                 |                       |                  | 2014/15                 |                       |                  |
|------------------------|-------------------------|-----------------------|------------------|-------------------------|-----------------------|------------------|
|                        | Depreciation<br>2013/14 | Impairment<br>2013/14 | Total<br>2013/14 | Depreciation<br>2014/15 | Impairment<br>2014/15 | Total<br>2014/15 |
| <b>Operational</b>     |                         |                       |                  |                         |                       |                  |
| Dwellings              | 6,645                   | 314                   | 6,959            | 6,796                   | 171                   | 6,967            |
| Other Land & Buildings | 617                     | (8)                   | 609              | 284                     | 1,695                 | 1,979            |
|                        | <b>7,262</b>            | <b>306</b>            | <b>7,568</b>     | <b>7,080</b>            | <b>1,866</b>          | <b>8,946</b>     |
| <b>Non-operational</b> |                         |                       |                  |                         |                       |                  |
| Other Land & Buildings | -                       | 958                   | 958              | 66                      | 1,540                 | 1,606            |
| <b>Total</b>           | <b>7,262</b>            | <b>1,264</b>          | <b>8,526</b>     | <b>7,146</b>            | <b>3,406</b>          | <b>10,552</b>    |

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

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

|  | 2013/14<br>£000 | 2014/15<br>£000 |
|--|-----------------|-----------------|
| <b>Balance at 1st April</b>                            | <b>(1,200)</b>  | <b>(1,200)</b>  |
| Depreciation credited                                  | (7,262)         | (6,796)         |
| Transfer to HRA  | -               |                 |
| Capital expenditure on land, houses and other property | 7,262           | 6,796           |
| <b>Balance at 31st March</b>                           | <b>(1,200)</b>  | <b>(1,200)</b>  |

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

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

This table identifies the total HRA share of contributions to and (from) the pensions reserve and breaks the figure down to show the type of contribution to or (from) the reserve. More detailed information on pensions is provided in note 46 to the core financial statements.

|   | 2013/14<br>£000 | 2014/15<br>£000 |
|---|-----------------|-----------------|
| <b><u>Pension costs incurred in Net Cost of Services</u></b>      |                 |                 |
| Current service cost  | (67)            | (770)           |
| Past service cost   | -               | -               |
|   | <b>(67)</b>     | <b>(770)</b>    |
| <b><u>Pension interest cost and expected return on assets</u></b> |                 |                 |
| Interest on liabilities   | (4,207)         | (5,737)         |
| Expected return on assets   | 3,171           | 3,377           |
|   | <b>(1,036)</b>  | <b>(2,360)</b>  |
| <b>Total Transfer to Pension Reserve</b>                          | <b>(1,103)</b>  | <b>(3,130)</b>  |

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

A charge of £566k was made to the Housing Revenue Account for Corporate & Democratic Core costs in 2014/15. This was the first year that such a charge has been explicitly made, and is part of a wider review of recharging within the authority.

## Collection Fund Income & Expenditure Account

| 2013/14<br>£000 |   | Note     | 2014/15        |                   |                |
|-----------------|---|----------|----------------|-------------------|----------------|
|                 |   |          | Council<br>Tax | Business<br>Rates | Total          |
|                 |   |          | £000           | £000              | £000           |
|                 | <b>Income</b>                                       |          |                |                   |                |
| 97,928          | Council Tax Collectable                             | 2        | 102,951        |                   | 102,951        |
| 100,309         | Income from Business Ratepayers                     |          |                | 98,648            | 98,648         |
| 0               | Contributions in respect of previous year's deficit | 5        |                | 1,960             | 1,960          |
| <b>198,237</b>  | <b>Total Income</b>                                 |          |                |                   | <b>203,559</b> |
|                 | <b>Expenditure</b>                                  |          |                |                   |                |
|                 | Precepts and Demands:                               | 3        |                |                   |                |
| 77,690          | Leicester City Council                              |          | 82,178         |                   | 82,178         |
| 10,792          | Leicester Police Authority                          |          | 11,361         |                   | 11,361         |
| 3,623           | Leicester Fire Authority                            |          | 3,814          |                   | 3,814          |
|                 |   |          |                |                   | 97,353         |
|                 | Business Rates:                                     | 4        |                |                   |                |
| 46,915          | Payments to Government                              |          |                | 50,618            | 50,618         |
| 938             | Payments to Fire                                    |          |                | 1,012             | 1,012          |
| 45,976          | Payments to Leicester City Council                  |          |                | 49,606            | 49,606         |
| 489             | Costs of Collection                                 |          |                | 490               | 490            |
|                 |   |          |                |                   | 101,726        |
| 680             | Contributions in respect of previous year's surplus | 5        | 2,765          |                   | 2,765          |
|                 | Bad and Doubtful Debts:                             | 6        |                |                   |                |
| 2,250           | Write-offs  |          | 1,126          | 1,469             | 2,595          |
| 2,041           | Increase / (Reduction) to provision                 |          | 500            | (6)               | 494            |
| 7,251           | Increase / (Reduction) to Provision for appeals     |          |                | 2,377             | 2,377          |
|                 |   |          |                |                   | 5,466          |
| <b>198,645</b>  | <b>Total Expenditure</b>                            |          |                |                   | <b>207,310</b> |
| 408             | Fund (Surplus) / Deficit for the Year               |          | (1,207)        | 4,958             | 3,751          |
| (928)           | Fund (Surplus) / Deficit brought forward            |          | (3,482)        | 2,962             | (520)          |
| <b>(520)</b>    | <b>FUND BALANCE AS AT 31st MARCH</b>                | <b>7</b> | <b>(4,689)</b> | <b>7,920</b>      | <b>3,231</b>   |



## Notes to the Collection Fund

### Income & Expenditure Account

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#### 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-   | 190  | 5/9   | 105                         | 36   | 69                              |
| A    | 65,420   | 6/9   | 43,613                      | 13,095                                       | 30,518                          |
| B    | 21,828   | 7/9   | 16,978                      | 2,530  | 14,448                          |
| C    | 13,068   | 8/9   | 11,616                      | 1,279  | 10,337                          |
| D    | 5,601  | 1     | 5,601                       | 367  | 5,234                           |
| E    | 2,820  | 11/9  | 3,446                       | 141  | 3,305                           |
| F    | 1,355  | 13/9  | 1,958                       | 57   | 1,901                           |
| G    | 553  | 15/9  | 922                         | 11   | 911                             |
| H    | 29   | 18/9  | 58                          | 0  | 58                              |
|      | <b>110,864</b>   |       | <b>84,297</b>               | <b>17,516</b>                                | <b>66,781</b>                   |
|      | Less adjustments for collection rates and anticipated changes to liability to pay the tax under the Local Council Tax Reduction Scheme (LCTRS) |       |                             |  | (2,406)                         |
|      | <b>Council Tax Base</b>  |       |                             |  | <b>64,375</b>                   |

The collectable Council Tax for 2014/15 was £128.165m (including sums paid under the Local Council Tax Reduction Scheme). After taking into account the total amount of this reduction (£24.992m), the average number of Band D dwellings equates to 68,223. This is an increase from the 64,375 dwellings existing when the 2014/15 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>2013/14</b> | <b>2014/15</b> |
|---------------------------------|----------------|----------------|
| Leicestershire Police Authority | 10,792         | 11,361         |
| Leicester City Council          | 77,690         | 82,178         |
| Leicestershire Fire Authority   | 3,623          | 3,814          |
| <b>Total</b>                    | <b>92,105</b>  | <b>97,353</b>  |

### **4. Income from Business Rates – 2014/15**

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

The total non-domestic rateable value at 31st March 2015 was £263,093,840 (£263,464,847 at 31st March 2014). The national non-domestic rating multiplier for the year was 48.2p (47.1p), (47.1p (46.2p) in 2013/14), 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/Deficits***

##### *Council Tax*

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

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

|                          | <b>City<br/>£000</b> | <b>Police<br/>£000</b> | <b>Fire<br/>£000</b> | <b>Total<br/>£000</b> |
|--------------------------|----------------------|------------------------|----------------------|-----------------------|
| <b>Estimate Jan 2014</b> | 2,332                | 324                    | 109                  | <b>2,765</b>          |

## *Business Rates*

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

|                          | <b>City<br/>£000</b> | <b>Central<br/>Government<br/>£000</b> | <b>Fire<br/>£000</b> | <b>Total<br/>£000</b> |
|--------------------------|----------------------|--|----------------------|-----------------------|
| <b>Estimate Jan 2014</b> | (960)                | (980)                                  | (20)                 | <b>(1,960)</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.

| <b>Provisions</b> | <b>Bad Debt Provision</b>                                |  |   | <b>Bad Debt<br/>Write-offs<br/>In year<br/>£000</b> |
|-------------------|--|--|---|---|
|                   | <b>Balance at<br/>1<sup>st</sup> April 2014<br/>£000</b> | <b>Increase/<br/>(Decrease)<br/>£000</b> | <b>Balance at<br/>31<sup>st</sup> March 2015<br/>£000</b> |   |
| Council Tax       | 5,473  | 500                                      | 5,973   | 1,126   |
| NNDR              | 2,844  | (6)                                      | 2,838   | 1,469   |
| <b>Total</b>      | <b>8,317</b>   | <b>494</b>                               | <b>8,811</b>  | <b>2,595</b>  |

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

The Collection Fund account shows a cumulative deficit of £3,231,215 at 31 March 2015 (£519,772 surplus at 31<sup>st</sup> March 2014).

The surplus arising on the Council Tax during the financial year 2014/15 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 2014/15 will be shared between Leicester City Council (49%), Central Government (50%) and the Leicester, Leicestershire & Rutland Combined Fire Authority (1%).

# 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**

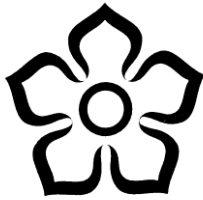
Represents the resources held by the Council that have arisen from the sale of non-current assets that are yet to be spent on other capital projects.

### **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



Leicester  
City Council

WARDS AFFECTED  
All

Audit and Risk Committee

12 August 2015

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## Review of the Effectiveness of the System of Internal Audit 2014-15

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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 2014-15.

#### 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 Internal Audit 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 its resources are used effectively and for their intended purpose.
- 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 31 March 2015.

- 3.4. The Accounts and Audit Regulations 2015 requires that the Council, in its capacity as a relevant authority:
- *‘must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.,*
- and,
- *‘...must conduct a review of the effectiveness of the system of internal control.’*
- 3.5. This review is part of a wider annual review of that system of internal control following which a report is to be submitted to this 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 Internal Audit and the Audit and Risk Committee.
- 3.6. This is the last time this report will be produced in this format, following the issue of the Accounts and Audit Regulations 2015. These updated regulations remove the previous requirement that the Council *‘must, at least once in each year, conduct a review of the effectiveness of its internal audit’* and report the outcome to the Audit & Risk Committee. For the Financial Year 2015-16 this requirement has gone. It is our assumption that, as the new Regulations refer almost directly to the Public Sector Internal Audit Standards (PSIAS), which require annual assessment of conformance and make much of the responsibilities of ‘the Board’ (the A&R Committee in our case), that our report confirming compliance with PSIAS will act as the annual review of effectiveness of Internal Audit in future years.

#### **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 Internal Audit 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. The key conclusions from the review are:
- The Council's Risk Management Policy and Strategy have been reviewed, updated and approved by the Corporate Management Team (formerly this was done 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 2015 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 Risk Management Strategy and Policy was a key element in the Head of Internal Audit and Risk Management's success in becoming the 'ALARM – the Public Sector Risk Management Association' Risk manager of the Year for 2014/15. This culminated in presentations being delivered in June 2015 to international risk managers in Texas as part of the PRIMA International Conference and to UK members of ALARM in Birmingham. This presentation, which outlines the success here at Leicester in implementing an ISO31000 and ERM (Enterprise Risk Management) compliant risk management process, is also being delivered to ALARM – Scotland in October and PRIMA have asked if this can be delivered for them again next year, again in the USA.
  - Internal Audit 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. Internal Audit plan to carry out a self-assessment of the service against the Public Sector Internal Audit Standards, the result of which will be reported to this committee.
  - The Internal Audit Plan reflects a risk-based approach consistent with the requirements of the 'Public Sector Internal Audit Standards'. Part of the (inter)national presentation mentioned earlier is the process by which Leicester have combined its risk and audit functions without damaging audit independence and allowing a traditionally, steadfastly 'third line' Internal Audit function to operate much more cohesively with the 'first and second lines' here at the Council (This represents the three lines of defence model of internal control and assurance, where the first line is management's own responsibility for control; the second line is the regulatory and advisory support functions (including Risk management amongst others); and the third line is Internal Audit – the independent review and assurance function).
  - Customer satisfaction returns continue to indicate a high level of satisfaction (average 99%) with the audit team for individual pieces of work, though there continues to be a low level of response (only 5) and, with the move toward more third party audit work being delivered by the team, a reducing number of 'internal' clients.

- The team is endeavouring to improve both productivity and the time management of individual audit assignments further. They took part in CIPFA audit benchmarking for 2014 (although budget restrictions means that this is likely to be a bi or tri-annual event in future), 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 through the provision of a dedicated Corporate Investigations team, although this function is not part of Internal Audit and reports separately to the Head of Revenue and Customer Support. Regular liaison meetings take place between Corporate Investigations and Internal Audit, however, to ensure that matters of mutual interest are communicated to and understood by each service. As well as investigating a number of high-profile matters during the year, the team will deliver fraud awareness training to managers and staff. An annual update on the counter fraud activity is brought to this Committee by the Corporate Investigations Manager.
- 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 Committee's annual report to the Council (13 November 2014) 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.'*

Whilst this was for 2013-14 the version for 2014-15 is currently being worked on, but is unlikely to conclude any differently.

- 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 Revenues and Customer Support  
Stuart Limb, Corporate Investigations Manager  
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–37 4001  
Tony Edeson, Head of Internal Audit and Risk Management–37 1621.

## **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(s), annual report of Internal Audit and other reports to the Audit and Risk Committee on the delivery of the Internal Audit Plan(s);
- 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 2014-15;
- Comparative analysis of some statistical measures of the service with those of comparable local authorities (via CIPFA benchmarking – when we partake);
- 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, 2013 and 2014) these were brought to the Audit and Risk Committee at its meeting on 4 February 2015 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 five 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.
- 2.4. It was a source of great pride for the Council for its risk management process to be recognised by industry peers as 'one of the best' and that further recognition was gained internationally when the Head of Internal Audit and Risk Management was sponsored as ALARM's UK Ambassador at the PRIMA International conference in Texas. Leicester City Council is now becoming seen as the 'go to' authority for guidance and support on Risk Management and Business Continuity within the UK public sector.

### **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 2014-15 financial year. Once again, the Council have adopted a process whereby we have 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.

Assessment of the Effectiveness of the System of Internal Audit

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- 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 remains strong with an in-house IT technical specialist. This resource is in great demand amongst our peer group authorities.
- 3.3. The 2014-15 Annual Report of Internal Audit will be presented to this Committee at its meeting on 29 September 2015. Progress reports 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:
- Regulation of Investigatory Powers Act (RIPA) – (Committee 29 September 2014)
  - Corporate Procurement Rules/Plan – (Committees 29 September 2014 and 29 October 2014)
  - Markets Management of Risk relating to Cash Collection – (Committee 29 October 2014)
  - Council Cash Collection Procedures – (Committee 29 October 2014)
  - Public Health Plan – (Committee 3 December 2014)
  - Lync/Telephony/Customer Service Centre Issues – (Committee 4 February 2015)
  - Update on actions taken following the OFSTED Report – (Committee 1 July 2015)
- 3.5. Internal Audit remains on course to achieve its target level of completion of planned audits during the year – see also 8.2 below.

**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 2014-15 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 2014-15.

**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 fully detailed 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 continues to seek other local Local Authorities to establish a network of 'peer group' reviews for future years.

**6. Internal Audit self-assessment of compliance with professional standards**

- 6.1. Internal Audit operates to the CIPFA *Code of Practice for Internal Audit in Local Government in the UK* and the 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,

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## Assessment of the Effectiveness of the System of Internal Audit

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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.

- 6.2. The outcomes of these self-assessment reviews are reported to the Audit and Risk Committee and an update on any actions arising from the reviews is given to the Committee as progress is made towards implementing those actions arising.

### **7. Internal Audit Client Satisfaction Returns**

- 7.1. Another method of gauging clients' views of Internal Audit's 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 low 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 (or past) year(s).

### **8. Performance Measures and Statistics**

- 8.1. Internal Audit produces performance measures and statistics during the course of the year. The team continues its endeavours to maintain its performance in respect of delivering its annual plan, but struggles to maintain the extent to which individual audits have kept within their time budgets. 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.
- 8.2. Within 2014/15 Internal Audit completed 84% of audits brought forward or commenced within the year. A further 12% were in progress at the year-end; the remaining 4% were to be started; most of these were awaiting the final go-ahead from the client.

### **9. Comparative Analysis**

- 9.1. The Internal Audit section was a member of the CIPFA audit benchmarking club to allow comparison its performance with other local authorities. It is always difficult to draw conclusions from such exercises, although the latest findings appear to confirm that, when compared with other similar non-metropolitan unitary authorities the Internal Audit team fared well.
- 9.2. 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.

- 9.3. Financial restraints mean that this will cease to be an annual event, instead becoming a biennial or even triennial event in future.

**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 had two main elements, a Corporate Counter-Fraud Team and a separate Revenues and Benefits Investigations Team. Between them, these teams conducted 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 with the County Council was proposed, this team moved and now reports to the Head of Revenues and Customer Support. Following a further review in 2014, these two previously separate functions have been restructured ahead of the transfer of the benefit fraud team to the Department of Work and Pensions (DWP) in March 2016.

10.3. The Revenues and Benefits Investigations Team continues to provide a specialist investigation service for Housing benefit and Council Tax Reduction, working under regulations applicable to the Housing Benefits service. The Corporate Investigations Team investigate all non-benefit related financial irregularities and this team continue to be 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 1 July 2015.

10.5. The work of the Corporate Investigation Team is regularly reported to the Audit and Risk Committee, usually at its July and December meetings. 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 Investigations 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 Investigations Team, 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 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.

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,

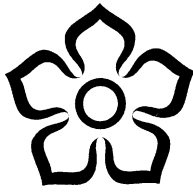
- It is acknowledged that Committee members need suitable training. Arrangements have been made to provide training on a relevant topic at the beginning of every meeting of the Committee. The Committee is subject, of course, to the risk of turnover of membership each municipal year, which is an inevitable consequence of the political environment in a local authority. When this happens the Head of Internal Audit and Risk Management provides 121 training for all new members.

**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

WARDS AFFECTED: ALL

**Audit and Risk Committee**

**12 August 2015**

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## **Risk Management and Insurance Services Update Report**

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### **Report of the Director of Finance**

#### **1. Purpose of Report**

To provide the Committee with the regular update on the work of the Council's Risk Management and Insurance Services team's activities.

#### **2. Summary**

The Committee has agreed a reporting schedule to keep it informed of:-

- Risk management activity within the Council;
- Information about the work of the Council's Risk Management and Insurance Services (RMIS) team; and,
- Information about other on-going initiatives in the Council to control risks it faces in the delivery of its services.

#### **3. Recommendations**

The Committee is recommended to:

- 3.1 Receive the report and note its contents.
- 3.2 Make any recommendations or comments it sees fit either to the Executive or Director of Finance.

#### **4. Report**

4.1 The Risk Management and Insurance Services team have responsibility for three critical functions:

- Risk Management Support and Advice;
- Insurance; and
- Business Continuity Support and Advice.

- 4.2 This report provides an update, in the previously agreed format, on work carried out by the RMIS team since the last meeting, reporting to you progress made against their objectives. It assures you, where possible, that risks within the business continue to be managed effectively.

#### 4.2.1 Risk Management Support and Advice

The Council maintains a Strategic Risk Register and an Operational Risk Register. These registers contain the most significant unmitigated risks which the Council is managing and they are owned by Strategic and Divisional Directors respectively. Whilst there are other key risks, in the view of Directors, these are sufficiently mitigated for them not to appear in these registers.

The Risk Registers as at the 30 April were presented to the last meeting of the Committee. The next quarterly reporting of these, as at the end of July, will be brought to the meeting on the 29 September. Should there be any significant changes which, in the opinion of the Director of Finance, need to be brought to the Committee's attention; a verbal update will be given.

The 2015 RMIS training programme, the aim of which is helping staff to understand and manage their risks more effectively, was launched to the business on 29 October 2014. The training sessions (an annual programme of events running since January 2011) continue to be supported by the business areas, with any falling attendances being brought to the attention of the Strategic and Divisional Directors by the Head of Internal Audit and Risk Management. The Directors have, and continue to, fully support the work of the team.

#### 4.2.2 Insurance and Claims

A summary report of claims against the Council received in the current financial year, 1 April to 30 June 2015 is attached as Appendix 1. This shows both successful and repudiated claims, breaking these down into business areas and type of claim i.e. slips and trips, potholes etc. Members should remember that one claim may be reported in more than one policy category – for example a Motor claim may also have a Personal Injury or Public Liability claim too, and that for new claims a value may not have been applied whilst initial investigations conclude.

The figures in brackets represent claims in those areas in the same period last year. The year on year figures have reversed the year on year downward trend for the first time in four years with claims compared to the same period last year up by 32%. Whilst we still feel that there are benefits of handling these claims in-house as fewer are being paid and those that are paid are being settled, on the whole, at lower levels and much

quicker – hence avoiding inflated Legal fees. The trend will be monitored over the next few months to see if this is merely a ‘blip’ or if the pattern has changed.

Since the last report to the Committee, the Council has had two cases go to Court. Both cases involved slip and trip type claims where our lawyers and insurers were confident of success, but regrettably on both occasions we lost. In the first case, the judge felt we had taken too long to affect a meaningful repair and based his decision on the fact that the pothole could have worsened between our inspection and repair, but did reduce the claim by 20%, so we were still able to return £3,000 to reserves.

In the second case the judge seemed unfamiliar with Highways legislation and criticised the Council for not logging defects that are ‘not actionable’. Our barrister did point out that on a road like Narborough Road where the incident occurred (and the case was heard in Northampton) that would take a Highways Inspector all month to do properly! Again, the damages awarded were reduced considerably and we were able to return around £15,000 to reserves. This, despite the outcomes, shows the benefits of defending these claims through the courts.

Loss Reduction Fund – There have been no bids received since the last update so the figures remain as last time. To remind members, for the period 1 April 2014 to 31 March 2015 RMIS received 52 bids for assistance from the fund for a total of £424,426.58. Of these bids, 25 applications were approved and the fund provided an amount of £175,515.47 to business areas. In addition, there are 8 bids for a total of £104,637.54 currently held awaiting further information.

#### **4.2.3 Business Continuity/Emergency Planning updates**

Since the last update report for the Committee there have been no significant events affecting the Council that required formal intervention by the Corporate Business Continuity team.

#### **4.2.4 Key Risk Issues arising within the Business**

The key significant risk issues arising within the business remain as reported to the last meeting of this Committee. Those surrounding the trade unions’ potential for, and actual, industrial action across areas of the public sector remain and the risk of adverse weather conditions causing disruption to service delivery.

The two main teaching unions (NUT and NASUWT) had agreed ‘action short of strike action’ on 3 October 2012. NUT members took strike action on 26 March and both Unions held a further strike (with much of the rest of the Public Sector) on the 10 July.

Although the ‘action short of a strike’ continues, the threatened full strike before Christmas did not materialise.

There had also been planned strikes by the unions representing rail staff. This had the potential for impact on both the Council and the City. On each occasion, even though formal agreement has still not been reached, the planned industrial action was cancelled.

Members will recall that following an incident in one of our parks, the Council was exposed to a, potentially substantial, uninsured loss. This substantial loss has been avoided, thanks to the work of the Insurance Team and Weightmans, our insurers solicitors.

As a result of this incident, the profile of risk assessments has been raised and an increase in training being offered and training being taken up within business areas has occurred. A review of documentation used is being undertaken and the position has also been brought to the attention of Corporate Management Team on the 5 August.

The Head of Internal Audit and Risk Management continues to Chair meetings of the Leicestershire Multi-Agency Business Continuity Group (the Leicester and Leicestershire regional business continuity network group) where the risks for group members arising from any strike action, and the group member’s response to deal with these incidents, are reviewed. He shall, again, co-ordinate the Council’s response with the support of the Chief Operating Officer.

Critical areas considered most at risk of disruption remain – schools – because of the impact on LRF partners and their staff if they fail to open; highways – emergency repairs and response to adverse weather conditions; and, housing – emergency repairs and maintenance.

#### **4.2.5 Horizon Scanning – events in other Public Sector agencies and the Private sector that may impact upon the Council.**

Early in July the Ofsted chief warned of ‘potentially high numbers of pupils’ disappearing from school registers in Birmingham and Tower hamlets in east London. This serious safeguarding issue emerged as inspectors made follow-up visits after the so-called ‘Trojan Horse’ inquiries. In light of the report that Members had at their last meeting, it should be no surprise that when the Head of Internal Audit and Risk Management discussed this with the Director, Learning Quality and Performance, the team here were already aware of this and had an action plan in place to deal with these cases and manage them going forwards.

On a similar note, the Council are working with the Department of Education (DfE) with a view to identifying 'illegal' schools being set up in Leicester. Once identified, the Council and the DfE identify these schools; they will work together to either help the school to gain 'legal' status or seek to ensure the children are moved back into mainstream education. This is a national problem and is not just focused in Leicester.

The Head of Internal Audit and Risk Management will continue to send to and/or discuss with relevant managers and directors any issues and the potential impacts they may have on the Council.

## 5. Financial, Legal Implications

There are no direct financial or additional legal implications arising from this report. These implications will rest within (and be reported by) the business areas that have day-to-day responsibility for managing their risk.

## 6. Other Implications

| OTHER IMPLICATIONS            | YES/NO | Paragraph References Within Supporting Information |
|-------------------------------|--------|--|
| Equal Opportunities           | No     |  |
| Policy                        | No     |  |
| Sustainable and Environmental | No     |  |
| Climate Change                | No     |  |
| Crime and Disorder            | No     |  |
| Human Rights Act              | No     |  |
| Elderly/People on Low Income  | No     |  |
| Risk Management               | Yes    | All of the paper.                                  |

## 7. Report Author/Officer to contact:

Tony Edeson, Head of Internal Audit and Risk Management, Financial Services - Ext 37 1621

28 July 2015



## Appendix 1 - Insurance Claims Data

### LEICESTER CITY COUNCIL - Insurance Claims Received 1 April 2015 - 30 June 2015

#### Claims received and being dealt with

| Incidents | Total Claims | Repudiated | In Progress | Paid    | Amount Paid       |
|-----------|--------------|------------|-------------|---------|-------------------|
| 14        | 207 (130)    | 30 (50)    | 163 (70)    | 14 (10) | £18,450 (£16,757) |

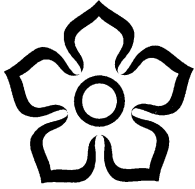
#### Breakdown by Area and Type of Claim

| Division                            | Responsible Director | Claim Type          |                  |                        |                 |       | Total Number | £ Value |
|-------------------------------------|----------------------|---------------------|------------------|------------------------|-----------------|-------|--------------|---------|
|                                     |                      | Employers Liability | Public Liability | Professional Indemnity | Personal Injury | Motor |              |         |
| Local Services & Enforcement        | John Leach           | 2                   | 16               |                        | 4               | 11    | 33 (30)      | 11500   |
| Plan, Transport & Economic Dev.     | Andrew L Smith       |                     | 41               |                        | 28              | 15    | 84 (62)      | 3950    |
| Children, Young People and Families | Clair Pyper          |                     |                  |                        |                 |       | 0 (8)        |         |
| Housing                             | Ann Branson          | 6                   | 36               |                        | 18              | 31    | 91 (58)      | 3000    |
| Adult Soc Care & Safeguarding       | Ruth Lake            |                     |                  |                        |                 | 1     | 1 (0)        |         |
| Del, Comms & Pol Governance         | Miranda Cannon       |                     |                  |                        |                 |       | 0 (1)        |         |
| Information & Cust Access           | Alison Greenhill     |                     |                  |                        |                 |       | 0 (1)        |         |
| Property                            | Mark Lloyd           | 1                   |                  |                        |                 |       | 1 (0)        |         |
| Learning Services (incl Schools)    | Jane Winterbone      | 1                   | 1                |                        | 2               |       | 4 (1)        |         |
| Finance                             | Alison Greenhill     | 1                   |                  |                        | 1               |       | 2 (0)        |         |
| Legal Services                      | Kamal Adatia         |                     |                  |                        |                 |       | 0 (0)        |         |
| Culture & Neighbourhood Svcs        | Liz Blythe           |                     | 1                |                        |                 |       | 1 (1)        |         |
| City Public Health & Health Imp     | Rod Moore            |                     |                  |                        |                 |       | 0 (0)        |         |
| Care Svcs & Commissioning           | Tracie Rees          |                     |                  |                        |                 | 1     | 1 (2)        |         |
| Total                               |                      | 11                  | 95               | 0                      | 53              | 59    | 218 (164)    | 18450   |

Last 12 months rolling repudiation rate - 76% (76%)







Leicester  
City Council

WARDS AFFECTED  
All

## FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Audit & Risk Committee

12 August 2015

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### Annual Approval of the Policy for Engagement of External Auditors for Non-Audit Work

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#### Report of the Director of Finance

##### 1. Purpose of Report

- 1.1. To seek the Audit and Risk Committee's approval of the *Policy for Engagement of External Auditors for Non-Audit Work*.

##### 2. Recommendations

- 2.1. The Committee is recommended to approve the attached *Policy for Engagement of External Auditors for Non-Audit Work*.

##### 3. Summary

- 3.1. At its meeting, on 25 June 2014, the Audit and Risk Committee approved the *Policy for Engagement of External Auditors for Non-Audit Work*. This was the second occasion this policy had been presented to this Committee.
- 3.2. The Audit and Risk Committee's Terms of Reference (and this policy itself) require this policy to be reviewed and approved annually.

##### 4. Report

- 4.1 See attached policy for Engagement of External Auditors for Non-Audit Work at **Appendix 1**.
- 4.2 The purpose of this is:
  - To protect the Council's interests by ensuring that any such work is properly arranged and approved
  - To protect the external auditor's independence and objectivity.
- 4.3 This policy does not replace the Council's existing Procurement processes, but adds an extra layer of security into that process where the External Auditors are concerned. The Policy outlines the approval processes and corporate reporting mechanisms that will be put in place for any non-audit work that the External Auditors are asked to perform.

- 4.4 The role of the Committee in the approval process for non-audit work by the external auditor is included in the Terms of Reference for the Committee. These are also reviewed and approved annually.
- 4.5 The policy has been reviewed and there are no changes proposed to this policy this year (as last year).
- 4.6 The Committee are reminded of the work undertaken by KPMG in the past Financial Year that was not directly linked to their audit:
  - Financial Evaluation Processes. Requested by the Executive to fend off any potential Judicial review - £10,200

**5. FINANCIAL, LEGAL AND OTHER IMPLICATIONS**

**5.1. Financial Implications**

None specific beyond the statutory duties to maintain effective arrangements for financial administration, prepare and publish financial statements and submit them for audit.

**5.2. Legal Implications**

KPMG’s responsibilities as the Council’s external auditors are set out in the Audit Commission Act 1998 and the Audit Commission’s *Code of Audit Practice*. The Council’s requirements for preparing and publishing its financial statements and annual governance statement, which are subject to external audit, are set out in the Accounts and Audit (England) Regulations 2011.

**6. Other Implications**

| Other Implications            | Yes/No | Paragraph or references within the report   |
|-------------------------------|--------|---|
| Equal Opportunities           | No     |   |
| Climate Change                | 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 report concerns the Council’s governance and assurance processes, a purpose of which is to give assurance that risks are being managed appropriately by the business. |

**7. Report Author**

Tony Edeson, Head of Internal Audit and Risk Management – 37 1621

## Policy for Engagement of External Auditors for Non-audit Work

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### 1. Introduction and purpose of this policy

It is important that the independence of our external auditors in reporting to those charged with governance and to management of Leicester City Council (the Council), does not appear to be compromised but equally the Council should not be deprived of expertise where it is needed and can be leveraged from KPMG as a whole.

This policy therefore seeks to set out what threats to audit independence theoretically exist and thus provides a definition of non-audit work which can be shared by the Council and KPMG. It then seeks to establish the approval processes and corporate reporting mechanisms that will be put in place for any non-audit work that KPMG is asked to perform.

### 2. Threats to independence

The Institute of Chartered Accountants in England and Wales sets out threats to independence as:

|               |  |
|---------------|--|
| Self interest | Where an interest in the outcome of their work or in a depth of relationship with the Council may conflict with the auditors' objectivity    |
| Self-Audit    | where the auditors may be checking their own colleagues work and might feel constrained from identifying risks and shortcomings              |
| Advocacy      | may be present in an engagement but could become a threat if an auditor becomes an advocate for an extreme position in an adversarial matter |
| Familiarity   | where the level of constructive challenge provided by the auditor is diminished as a result of assumed knowledge or relationships that exist |

### 3. Defining types of non-audit work and the associated approval process

In order to provide the Council with a transparent mechanism by which non-audit work can be reviewed and progressed without too great an administrative burden falling on the Council, the following three categories of work have been agreed as applying to the professional services available from KPMG:

#### **3.1. *Statutory and audit related work not requiring Audit and Risk Committee approval***

There are certain projects where the work is clearly audit related and the external auditors are best placed to do the work e.g. acting as agents to the Audit Commission for grants certification work.

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## Policy for Engagement of External Auditors for Non-audit Work

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It is proposed that such assignments do not require Audit and Risk Committee approval. However, recognising that the level of non-audit fees may also be a threat to independence, a limit of £29,320 is set, above which the Audit and Risk Committee should be advised of such work. This is aligned to the protocols that the external auditors have to follow internally for such work to comply with the requirements set by the Public Sector Audit Appointments Ltd and the National Audit Office.

### **3.2 *Audit related and advisory services requiring prior Audit and Risk committee approval***

There are projects and engagements where the auditors are best placed to perform the work:

- Due to their network within and knowledge of the business (e.g. taxation advice, due diligence and accounting advice);
- Due to their previous experience or market leadership.

It is proposed that prior Audit and Risk Committee approval is sought for non-audit related projects of this nature, with the same financial threshold as above.

### **3.3 *Projects that are not permitted***

There are some projects that are not to be performed by the external auditors. These projects represent a real threat to the independence of the audit team such as where the external auditors would be in a position where they are auditing their own work (for example, systems implementation).

The Audit and Risk Committee is responsible for approving all non-audit work undertaken by the external auditors and reporting any instances to the Council. These proposed categories of non-audit work along with the related approval levels are set out below. More detail on each type of work is set out in Appendix A.

For the avoidance of doubt, seeking approval from the Audit and Risk Committee involves the business sponsor of the proposed work obtaining a proposed scope and fee estimate from KPMG before the work commences. If the fee exceeds the proposed limits or falls into a category of work that requires approval, details of the scope and fee proposal should be submitted to the Audit and Risk Committee Chairman and Director of Finance. If approved, the project should be logged by the Audit and Risk Committee secretary to be raised at the next Audit and Risk Committee meeting in order that a schedule of non-audit fees can be maintained and Council updated.

In cases where it is undecided which category services fall into they will default to the category that requires Audit and Risk Committee approval and be expected to take that

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**Policy for Engagement of External Auditors for Non-audit Work**

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route until such as time as this policy is reviewed and updated by the Audit and Risk Committee.

**4. Reviewing and updating this policy**

KPMG will include within our annual ISA 260 report (report to those charged with governance) an appendix that summarises any additional work that they have performed for the Council and a review of the effectiveness of this policy.

The Audit and Risk Committee will formally agree on an annual basis that it is content with the structure, content and operation of this policy.

## Examples of Work Types

The table below sets out examples of the different work types that could be requested from KPMG. As it would not be practical to consider all the services provided by KPMG we have documented the characteristics that drive the classification of services into the different work steams. This table is intended to provide illustrative examples of how the implementation of this policy would be approached should the Council request assistance from KPMG.

|  | Statutory and audit related<br>(Not requiring advice to Audit and Risk Committee, unless in excess of £29,320)  | Audit and assurance related and non-audit advisory services<br>(Sensitive projects requiring referral without de minimis)  | Projects that are not permitted   |
|--|---|--|---|
| <b>Characteristics</b>                             | <ul style="list-style-type: none"> <li>Advice on areas core to the financial statements audit</li> </ul>  | <ul style="list-style-type: none"> <li>Requiring independent objective assessment of information or procedures</li> <li>Staff secondments</li> <li>Other advisory services</li> </ul>  | <ul style="list-style-type: none"> <li>Participation in management</li> </ul>   |
| <b>Acquisitions / Disposals</b>                    | <ul style="list-style-type: none"> <li>Accountants reports</li> <li>Reporting on financial assistance</li> <li>Audit of carve out financial statements</li> </ul> | <ul style="list-style-type: none"> <li>Due diligence and related advice</li> <li>Completion accounts audit</li> <li>Agreement of price adjustment as a result of completion accounts</li> <li>Advice on integration activities</li> <li>Preparation of forecast of investment proposals</li> </ul> |   |
| <b>Internal Audit and Risk Management Services</b> | <ul style="list-style-type: none"> <li>None</li> </ul>  | <ul style="list-style-type: none"> <li>Provision of specialist skills / training</li> <li>Advice on methodology and systems</li> <li>Co-sourcing</li> <li>Advice and design of policies, systems or procedures.</li> </ul>   | <ul style="list-style-type: none"> <li>Full outsourcing</li> <li>Systems implementation</li> </ul>                              |
| <b>Taxation</b>                                    | <ul style="list-style-type: none"> <li>None</li> </ul>  | <ul style="list-style-type: none"> <li>Preparation of draft returns</li> <li>Submission of returns and correspondence with tax authorities</li> <li>Advice on tax matters</li> <li>Transfer pricing</li> <li>Valuation for the purposes of taxation</li> </ul>                                     | <ul style="list-style-type: none"> <li>Preparation of accounting entries for tax</li> <li>Handling taxation payments</li> </ul> |

## Examples of Work Types

|                           | Statutory and audit related<br>(Not requiring advice to Audit and Risk Committee, unless in excess of £29,320) | Audit and assurance related and non-audit advisory services<br>(Sensitive projects requiring referral without de minimis)  | Projects that are not permitted   |
|---------------------------|--|--|---|
| <b>General Accounting</b> | <ul style="list-style-type: none"> <li>• None</li> </ul>   | <ul style="list-style-type: none"> <li>• Advice on accounts preparation and application of accounting standards</li> <li>• Training for accounting and risk management projects</li> <li>• Booking keeping services</li> </ul> | <ul style="list-style-type: none"> <li>• Preparation of accounting entries</li> <li>• Preparation of financial information</li> </ul> |





# Appendix B1

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

