



Leicester  
City Council

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

**DATE: WEDNESDAY, 13 JUNE 2018**

**TIME: 5:30 pm**

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

#### **Members of the Committee**

Councillor Riyait (Chair)

Councillor Westley (Vice-Chair)

Councillors Alfonso, Bajaj, Dr Chowdhury and Dr. Moore

One Labour Group unallocated place

Two unallocated Non-Group places

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

for Monitoring Officer

**Officer contact: Anita James**  
*Democratic Support, Democratic Services*  
*Leicester City Council,*  
*City Hall, 115 Charles Street, Leicester, LE1 1FZ*  
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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 Anita James, **Democratic Support on (0116) 454 6358** or email [Anita.James2@leicester.gov.uk](mailto:Anita.James2@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**

#### **FIRE / EMERGENCY EVACUATION**

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

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

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

#### **3. MINUTES OF THE PREVIOUS MEETING HELD 21ST MARCH 2018 [Appendix A](#)**

The Minutes of the previous meeting of the Audit and Risk Committee held on 21<sup>st</sup> March 2018 are attached, and Members will be asked to confirm them as a correct record.

#### **4. MEMBERSHIP OF THE AUDIT & RISK COMMITTEE 2018/19**

Members are asked to note the membership of the Committee for 2018/19:

Councillor Riyait (Chair)

Councillor Westley (Vice-Chair)

Councillor Alfonso

Councillor Bajaj

Councillor Dr Chowdhury

Councillor Dr Moore

1 Labour Group place unallocated

2 non-Group places unallocated

#### **5. DATES OF MEETINGS OF THE AUDIT & RISK COMMITTEE 2018/19**

Members are asked to note that the meeting dates of the Committee for the 2018/19 municipal year are scheduled as follows:

Wednesday 13<sup>th</sup> June 2018

Wednesday 25<sup>th</sup> July 2018

Wednesday 12<sup>th</sup> September 2018  
Tuesday 27<sup>th</sup> November 2018  
Wednesday 6<sup>th</sup> March 2019

All meetings to commence at 5.30pm, with any Members training or briefings to take place at 5.00pm.

**6. EXTERNAL AUDIT PLAN 2017/18** **Appendix B**

The External Auditor (KPMG) submits a report that sets out how they will deliver their financial statements audit work (including Annual Governance Statement) for Leicester City Council and the approach for value for money work for 2017/18.

The committee are asked to note the report.

**7. EXTERNAL AUDITORS ANNUAL AUDIT FEES LETTER 2018/19** **Appendix C**

The External Auditor submits an Annual Audit Letter which summarises the audit work and fee proposed for 2018/19 financial year at Leicester City Council.

The committee are asked to note the report.

**8. THE COUNCIL'S DRAFT ANNUAL GOVERNANCE STATEMENT 2017/18** **Appendix D**

The Director of Finance submits a report to provide an opportunity for comment on the Council's Draft Annual Governance Statement for the financial year 2017/18.

The committee are asked to consider the Draft Annual Governance Statement 2017/2018 and recommend any changes it sees fit.

**9. THE DRAFT STATUTORY STATEMENT OF ACCOUNTS 2017/18** **Appendix E**

The Director of Finance submits a report to provide an opportunity for comment on the Council's Draft Statement of Accounts 2017/18.

The committee are asked to consider the Draft Statement of Accounts 2017/18 and recommend any changes it sees fit.

**10. INTERNAL AUDIT SERVICE - PEER REVIEW OUTCOME** **Appendix F**

The Head of Internal Audit & Assurance submits a report to inform the outcome of a peer review conducted at Leicestershire County Council's Internal Audit Service.



The committee are asked to review and note the outcome of the peer review.

**11. INTERNAL AUDIT SERVICE ANNUAL PLAN 2018/19** [Appendix G](#)

The Head of Internal Audit & Assurance submits the Internal Audit Service Annual Plan 2018/19 to provide the Committee with an indication of internal audit work planned to be conducted during 2018/19.

The committee are asked to makes any recommendations or comments and to approve the plan.

**12. ANNUAL TIMETABLE OF REPORTS FOR THE AUDIT & RISK COMMITTEE** [Appendix H](#)

The Head of Finance provides a timetable of scheduled reports for the meetings of the Audit & Risk Committee during the financial year 2018/19.

**13. 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 reports in private on the grounds 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 of 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, 2017/18 – APPENDIX I

INTERNAL AUDIT SERVICE ANNUAL REPORT 2017/18 – APPENDIX J

**14. INTERNAL AUDIT SERVICE 2017/18 Q4 UPDATE** [\*\*Appendix I\*\*](#)

Head of Internal Audit & Assurance submits the Internal Audit Service update report for Q4 2017/18 including summary information on high importance recommendations and progress with implementing them.

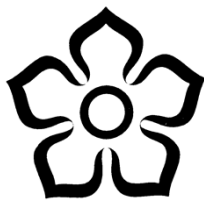
The Committee are asked to note the update and key issues identified.

**15. INTERNAL AUDIT SERVICE ANNUAL REPORT 2017/18** [\*\*Appendix J\*\*](#)

Head of Internal Audit & Assurance submits the Internal Audit Annual Report 2017/18 detailing the internal audit work conducted during 2017/18. The report also contains information on the internal audit function's conformance to professional standards and its quality assurance framework.

The committee are asked to note the contents of the report and make comments or recommendations as appropriate.

**16. ANY OTHER URGENT BUSINESS**



Leicester  
City Council

# Appendix A

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

Held: WEDNESDAY, 21 MARCH 2018 at 5:30 pm

### P R E S E N T :

Councillor Dawood (Chair)  
Councillor Westley (Vice Chair)

Councillor Alfonso  
Councillor Bajaj

Councillor Hunter  
Councillor Dr Moore

\* \* \* \* \*

#### **44. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Dr Chowdhury, Alison Greenhill the Director of Finance and Lynn Wyeth Head of Information Governance.

#### **45. DECLARATIONS OF INTEREST**

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

There were no declarations of interest.

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

RESOLVED:

That the minutes of the meeting held on 6<sup>th</sup> December 2017 be confirmed as a correct record.

#### **47. EXTERNAL AUDIT PLAN 2017-18**

The External Auditor (KPMG) explained the process being undertaken to produce the External Audit Plan 2017-18 which would set out the audit approach to the 2017-18 accounts.

It was noted that changes to the regulations had led to very significant audit implications for the authority which had become an EU Public Interest Entity

(EU PIE) due to bonds issued some years ago which are traded on the stock exchange and hence the formal level of risk associated with the audit had increased. More audit work was therefore required which would include revisiting asset valuations, risk management and compliance and a longer audit report.

Members were informed that advice was being taken on a number of elements arising from the new regulation, such as the requirement for audit committees to have at least one member with a finance/audit background and that the “approval” report should be brought to the committee in private session which contradicted pre-existing regulations for council statutory accounts approvals.

It was proposed that once the External Audit Plan was complete it would be circulated to members for comments and approval.

The Chair thanked the External Auditor for the explanation.

RESOLVED:

That the comments be noted.

#### **48. ANNUAL REPORT - CERTIFICATION OF CLAIMS AND RETURNS (GRANTS)**

The External Auditor (KPMG) presented a report summarising the work of the auditor on the Council’s 2016/17 grant claims and returns.

It was noted that the Housing Benefit Subsidy claim had been certified with a value of £130.4 million and a recommendation was raised for the authority to continue to take actions to reduce the level of similar errors.

Unqualified assurance reports were issued on Teachers’ pensions (value £24.3 million) and Pooling of housing capital receipts (value £17.7 million). Members noted that the outcome was consistent with previous years.

Concern was expressed about the impacts of Housing Benefit Subsidy clawback as a loss to the Council and inaccurate assessments. However, it was noted that the value of loss through subsidy clawback against the general fund had reduced from £1.2m in recent years to an anticipated clawback of £330k 2016/17. The quality team continued to check forms and processes, although there were still challenges as claimants’ circumstances often changed quickly and new information was not always notified promptly.

Members raised concerns that people who could not read or write were disadvantaged by the system as they could not complete forms themselves and were unable to use the internet. It was suggested that there were also issues with customer service phone lines and at the Granby Street Customer Service Centre. The Chair indicated that these issues should be referred to either the Housing Scrutiny Commission or the Neighbourhood Services & Community Involvement Scrutiny Commission to consider further.

In terms of progress the External Auditor advised that he would expect quicker and more consistent progress than the Council was making, but inherent in that was the level of complexity of cases being dealt with compounded by the sheer volume of cases. Progress was being made in the right direction albeit slow and steady.

It was agreed that the action plan to improve the accuracy of assessments should be reviewed to identify how further progress could be made and timescales for that to be reported to the next meeting.

The Chair thanked the External Auditor for the report.

RESOLVED:

1. That the report be noted,
2. That the action plan be reviewed and reported to the next meeting.

#### **49. PROCUREMENT PLAN 2018-19**

The Director of Finance submitted a report on the procurement plan 2018-19 as required by the Contract Procedure Rules.

Neil Bayliss, Head of Procurement presented the report which listed the contracts expected to be procured during the forthcoming financial year over the EU threshold. It was noted that the EU thresholds were updated in December 2017 coming into force on 1 January 2018 for the next 2 years as set out at para 3.5 of the report, amounting to an overall increase of approx. 10% on the threshold.

The Chair asked for further details about how social value, apprenticeships, living wage etc was being achieved to be reported to a future meeting.

RESOLVED:

1. That the contents of the report be noted,
2. That a report on how social value, apprenticeships, living wage etc are being achieved be provided to a future meeting.

#### **50. REGULATION OF INVESTIGATORY POWERS ACT 2000 - BI-ANNUAL PERFORMANCE REPORT JULY 2017- DECEMBER 2017**

The City Barrister and Head of Standards submitted a report providing details on the performance of the Council in authorising Regulatory Investigation Powers Act (RIPA) applications, from 1 July 2017 to 31 December 2017.

Colin Sharpe, Head of Finance presented the report and informed members that the council had applied for zero Directed Surveillance Authorisations and zero Communications Data Authorisations in the period above.

The Chair thanked the Head of Finance for the update.

RESOLVED:

That the contents of the report be noted.

## **51. FINANCIAL AND ACCOUNTING DEVELOPMENTS UPDATE**

The Director of Finance submitted a report on key financial changes currently affecting the council.

Amy Oliver, Chief Accountant outlined the main issues which might impact upon the work of the Audit and Risk Committee which included details of Personal Service Companies, Markets in Financial Instruments Directive (MiFID), Base Rate rises, Faster Closedown and Minimum Revenue Provision.

The Chair thanked the Chief Accountant for the report.

RESOLVED:

That the contents of the report be noted.

## **52. RISK MANAGEMENT AND BUSINESS CONTINUITY STRATEGY AND POLICIES 2018**

The Director of Finance submitted a report presenting the revised Risk Management and Business Continuity Policy Statement and Strategies.

Sonal Devani, Risk Management Manager outlined the report and explained that the policy statement and strategies provided an effective framework for the Council to manage and respond to key risks facing its services to help achieve the delivery of its Business Plan.

Members considered the report and the recommendations to approve the updated Corporate Risk Management Policy Statement and Strategy and the Business Continuity Management Policy Statement and Strategy.

During discussion it was noted that a Risk Management Training programme was rolled out on a yearly basis. Mandatory training sessions were held for anyone involved in risk assessment and that had helped with implementation of strategy and policies.

Sonal Devani, Risk Management Manager commented that there were less concerns that risks were not being identified. Lessons had been learnt and Directors' involvement in the risk process and quarterly reporting had helped to embed that across divisions. Head of Service Risk Registers and Divisional Risk Registers are two separate registers and the system seems to be working better than previously with a focus on capturing risks rather than issues.

Members praised the clarity of the report and noted the progress in risk management.

Members also commended officers involved in the recent incident on Hinckley Road for all their work and continued efforts to help and support the emergency services, local residents and surrounding community. It was noted that the Council had provided a rest centre and community hub which was still in place and continued to work to make the area safe as well as repairing and clearing the pavement and city-bound carriageway.

RESOLVED:

1. That the Corporate Risk Management Policy Statement and Strategy be approved.
2. That the Business Continuity Management Policy Statement and Strategy be approved.

**53. ANNUAL REVIEW OF THE COUNCIL'S ASSURANCE FRAMEWORK, LOCAL CODE OF CORPORATE GOVERNANCE AND THE AUDIT & RISK COMMITTEE'S TERMS OF REFERENCE**

The Director of Finance and the City Barrister & Head of Standards submitted a report seeking approval of updates to the assurance and corporate governance processes at the City Council and to note the position with the committee's terms of reference.

Colin Sharpe, Head of Finance presented the report and informed members that there were minor changes to the assurance framework to reflect the statutory requirement for an earlier publication of the Council's statement of accounts, annual governance statement and narrative statement. The local code of corporate governance approved by the Audit & Risk Committee in March 2017 had also been reviewed and no changes were proposed.

In relation to the Audit & Risk Committee's terms of reference it was noted that the new national guidance on the role of audit committees had still not been released and it was proposed that a further report on revisions arising from that guidance should be brought to a future meeting.

Members of the committee discussed the report and noted the seven core principles in the Local Code of Corporate Governance, taken from a framework which Council's had to adopt and designed to develop and shape an informed approach to governance. Whilst Members accepted the words and principles stated, it was suggested that in practice these standards might not yet be fully and consistently embedded across the Council, and that an element of aspiration is acceptable. The AGS process reflects on the achievement of the principles and identifies any systemic improvements required.

The Chair thanked the Head of Finance for the report.

RESOLVED:

1. That the assurance framework be approved,
2. That the local code of corporate governance be approved,
3. That a report on the Audit & Risk Committees terms of reference be brought to a future meeting following publication of new national guidance.

#### **54. THE INTERNAL AUDIT CHARTER**

The Director of Finance submitted a report seeking approval of a new Internal Audit Charter following the annual review and updates.

Neil Jones, Head of Internal Audit & Assurance Service, Leicestershire County Council explained that the previous charter was approved by the committee in February 2017. The Charter had been updated to reflect changes during the year, namely revised standards that were introduced from 1 April 2017 and the delegation of the Council's internal audit function to Leicestershire County Council in November 2017 and differences in roles.

The Chair thanked the Head of Internal Audit & Assurance Service for the report.

RESOLVED:

1. That the Internal Audit Charter be approved,
2. That the Internal Audit Charter accurately reflects the terms of reference of the internal audit function provided by Leicestershire County Council Internal Audit Service (LCCIAS)

#### **55. INTERNAL AUDIT PLAN 2018-19**

Neil Jones, Head of Internal Audit & Assurance Service, Leicestershire County Council explained the process being undertaken to produce the Internal Audit Plan 2018-19.

It was noted that more time and understanding of the City Council's objectives, risks and any specific complexities was required to be able to produce the Internal Audit Plan for the financial year 2018-19. Risk registers were being reviewed and any current internal audit themes and differing delivery models would be considered in consultation with Directors to formulate the Internal Audit Plan moving forward.

It was anticipated that a report would be brought to the next meeting of the Audit & Risk Committee in June.

RESOLVED:

That the verbal update be noted.

#### **56. PRIVATE SESSION**

6.48pm Into Private Session



RESOLVED:

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

Paragraph 3

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

Appendix – Internal Audit Update Report – 2017/18 – to end of January 2018.

**57. INTERNAL AUDIT UPDATE REPORT - 2017/18 - TO END OF JANUARY 2018**

The Director of Finance submitted a report summarising the Internal Audit work completed during the 2017/18 financial year to the end of January 2018.

Neil Jones, Head of Internal Audit & Assurance Service, Leicestershire County Council outlined the report and provided an overview of audit work planned and completed and informing members of the external assessment of the Leicestershire County Council’s Internal Audit Service.

Members noted that audits were progressing as planned and that a full report on the outcomes of the external assessment would be brought to the next meeting of the committee.

RESOLVED:

That the contents of the report be noted.

**58. ANY OTHER URGENT BUSINESS**

There being no further business the meeting closed at 7pm.





# External Audit Plan 2017/2018

**Leicester City Council**

**May 2018**

# Summary for Audit and Risk Committee

## Financial statements

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability in terms of the accounting standards the Authority needs to comply with. Despite this, the deadline for the production and signing of the financial statements has been significantly advanced in comparison to the year ended 31 March 2017. The accounts were available by 22<sup>nd</sup> June in the previous year so this represents a significant change for Leicester City Council and will need to be carefully managed in order to ensure the new deadlines are met. As a result we have recognised a significant risk in relation to this matter.

In order to meet the revised deadlines it will be essential that the draft financial statements and all 'prepared by client' documentation is available in line with agreed timetables. Where this is not achieved, there is a significant likelihood that the audit report will not be issued by 31 July 2018.

## Materiality

Materiality for planning purposes has been set at **£12 million**. As an EU Public Interest Entity, materiality cannot exceed 1% of gross expenditure and we will review materiality again when we receive the 2017/18 accounts for audit.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£600,000**.

## Significant risks

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

- **Valuation of PPE** – The Authority owns Property, Plant and Equipment valued at £2,243,458k (2016/17 audited accounts) and operates a cyclical revaluation approach. The Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated.
- **Pension Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary is £655,450k (2016/17 audited accounts). The valuation of the Authority's pension liability, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure the accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.
- **Faster Close** – As set out above, the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We will work with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work.
- **New payroll system** – The Authority has replaced its payroll system in year. There are inherent risks around loss of data and maintenance of its integrity when migrating to new systems, as well as the risk that controls could be compromised. We will review the Authority's arrangements for data migration and the effectiveness of the controls in the new payroll system.

**See pages 4 to 11 for more details**

# Summary for Audit and Risk Committee (cont.)

## **Value for Money Arrangements work**

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk to date:

- **Financial resilience**– As a result of reductions in central government funding, and other pressures, the Authority is having to pursue efficiency and savings targets. The Authority has an established reserves strategy, building up reserves over the last three years to allow time to develop the approach to identifying savings. The General Fund stands at £15 million which is the minimum balance recommended by the Director of Finance. The Authority had £172 million in earmarked reserves at the previous year end which was an underlying decline of around £18.3 million in the year. From this year, the Authority plans for reductions in earmarked reserves as it makes investments in transforming services. We will consider the way in which the Authority develops its Medium Term Financial Strategy.

**See pages 12 to 16 for more details**

## **Logistics**

Our team is:

- John Cornett – Director
- Helen Brookes – Manager

More details are in **Appendix 2**.

Our work will be completed in four phases from December to July and our key deliverables are this Audit Plan, an Interim Letter (if applicable) and a Report to Those Charged With Governance as outlined on **page 19**.

The scale fee published by the PSAA for the 2017/18 audit is £146,603 (£146,603 2016/2017) see **page 18**. However, it is likely that the introduction of the new payroll system and the enhanced audit requirements associated with the Authority's status as an EU PIE will require extra fee.

## **Acknowledgements**

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

# Introduction

## Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2017/18 presented to you in April 2017, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the National Audit Office’s Code of Audit Practice and the PSAA Statement of Responsibilities.

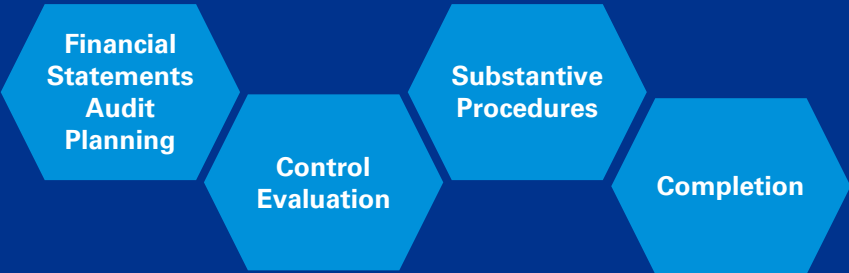
## Our audit has two key objectives, requiring us to audit/review and report on your:

- 01 | **Financial statements :**  
Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and
- 02 | **Use of resources:**  
Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reported to the Audit and Risk Committee.

## Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



## Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a six stage process which is identified below. Page 14 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2017/18.



# Financial statements audit planning

## Financial Statements Audit Planning

Our planning work takes place during December 2017 to February 2018. This involves the following key aspects:

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of management's use of experts; and
- Issuing this audit plan to communicate our audit strategy.

## Risk assessment

Auditing standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

01

### Management override of controls

Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

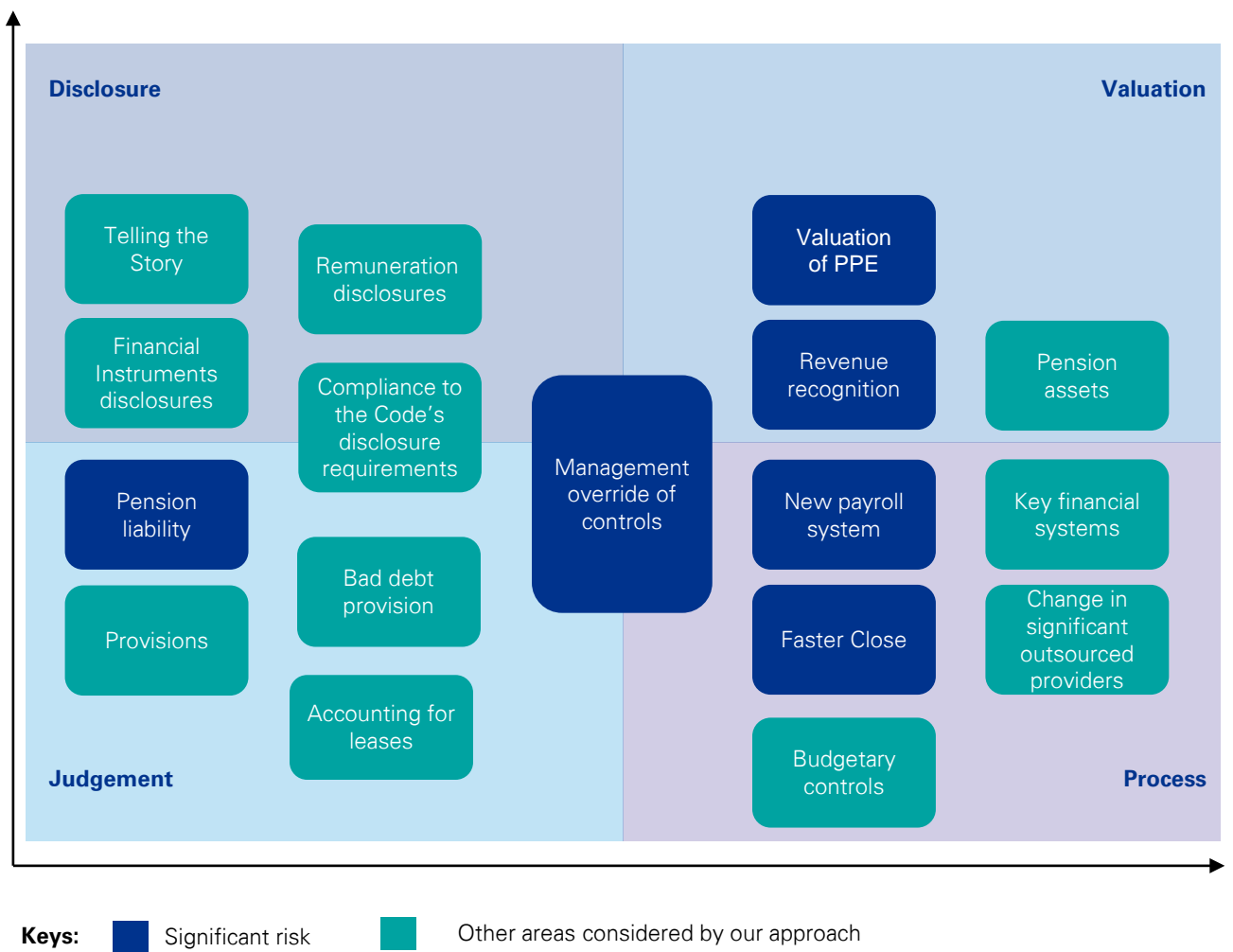
02

### Fraudulent revenue recognition

We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

# Financial statements audit planning (cont.)

The diagram below identifies significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.





# Financial statements audit planning (cont.)

## Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

### Risk: Valuation of PPE

The Authority owns Property, Plant and Equipment valued at £2,243,458k (2016/17 audited accounts). The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.

### Approach: We will undertake the following work over the valuation of material fixed assets:

- upon application of any revaluation exercise, we will review the revaluation basis and consider its appropriateness. We will engage our valuation specialist to undertake an assessment of the revaluation:
- undertake an assessment of the expertise of the valuer commissioned to perform the revaluation exercise. We will obtain the instructions provided to the valuer and assess the independence and objectivity of the valuers and the terms under which they were engaged by management;
- consider the source of the information provided to, and used by, the valuer, and undertake appropriate testing to ensure both its completeness and accuracy, including the existence of assets;
- review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach.
- confirm the appropriateness of any amendments made by management to the information received from the valuer before being incorporated into the financial statements.
- undertake appropriate work to understand the basis upon which any impairments to land and buildings have been calculated. We will test the associated assumptions.

# Financial statements audit planning (cont.)

## Significant Audit Risks (cont.)

### **Risk: Pension Liabilities**

The net pension liability represents a material element of the Authority's balance sheet. The valuation of the Authority's pension liability, as calculated by the Actuary is £655,450k (2016/17 audited accounts). The Authority is an admitted body of Nottinghamshire Pension Fund which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact on the net pension liability accounted for in the financial statements.

### **Approach:** We will undertake the following the work over the valuation of the pension liability:

- review the controls that the Authority has in place over the information sent directly to the Scheme Actuary;
- liaise with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation;
- evaluate the competency, objectivity and independence of Hymans Robertson
- review the appropriateness of the key assumptions included within the valuation, compare them to expected ranges, and consider the need to make use of a KPMG Actuary; and
- review the overall actuarial valuation and consider the disclosure implications in the financial statements.

# Financial statements audit planning (cont.)

## Significant Audit Risks (cont.)

### Risk: **Faster Close**

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

The Authority was able to produce the accounts by 22<sup>nd</sup> June in the previous year so these changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.

In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries, subsidiaries and subsidiary auditors) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Audit and Risk Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit and Risk Committee in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date whilst work is on-going in relation to the Authority's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.

**Approach:** We will continue to liaise with officers in preparation for our audit in order to understand the steps that the Authority is taking to ensure it meets the revised deadlines. We will also look to advance audit work into the interim visit in order to streamline the year end audit work.

Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.

# Financial statements audit planning (cont.)

## Significant Audit Risks (cont.)

### **Risk:**            **New payroll system**

The Authority has replaced its payroll system in year. There are inherent risks around loss of data and maintenance of its integrity when migrating to new systems, as well as the risk that controls could be compromised. We will review the Authority's arrangements for data migration and the effectiveness of the controls in the new payroll system.

- Approach:** We will undertake specific additional testing (to be agreed with the Council) as part of our work in the current year in relation to the system transition. This will include, for example:
- Sample testing the migration of 'standing' data from the Council's legacy payroll system (Northgate) and the new payroll system (SAFE);
  - Reviewing the output of parallel running exercise of the payroll system (if undertaken), including the actions taken by the Council in relation to any 'exceptions' arising from this exercise; and
  - Considering the access and security arrangements in relation to the new system.
- We will use IT audit specialists as part of our audit team to undertake this work.

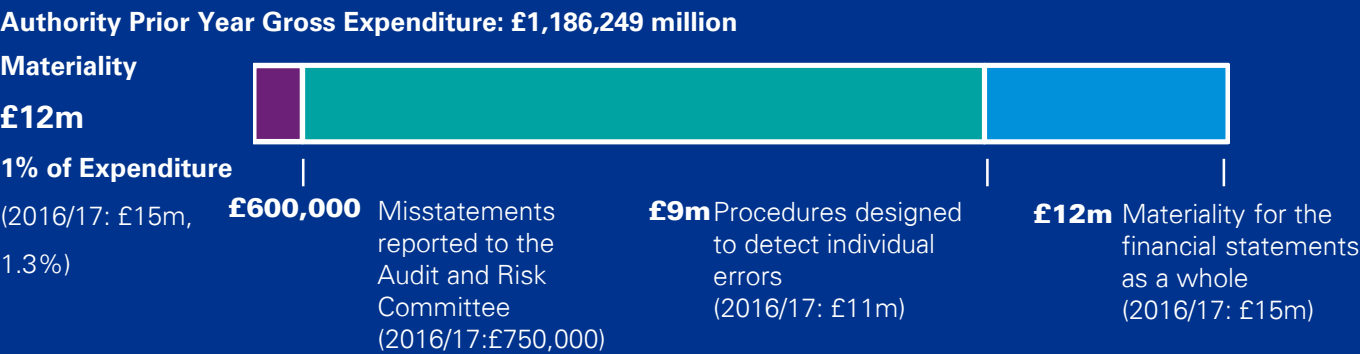
# Financial statements audit planning (cont.)

## Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent ‘misstatements’ unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority, materiality for planning purposes has been set at £12 million which equates to 1 percent of gross expenditure. As an EU PIE, materiality cannot exceed 1%. We will review materiality again when we receive the 2017/18 accounts for audit.



# Financial statements audit planning (cont.)

## Reporting to the Audit and Risk Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Risk Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK&I) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £600,000.

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

### We will report:



Non-Trivial corrected audit misstatements



Non-trivial uncorrected audit misstatements



Errors and omissions in disclosure  
(Corrected and uncorrected)

# Value for money arrangements work

## VFM audit approach

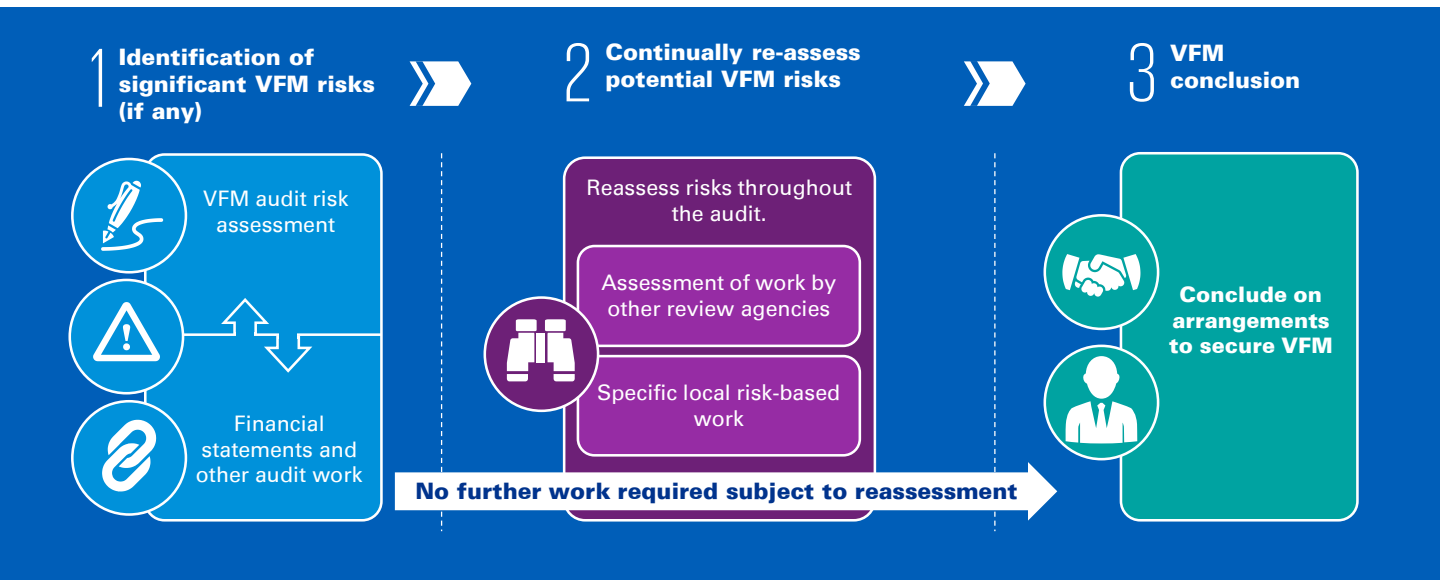
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority ‘has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources’.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to ‘take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor’s judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body’s arrangements.’

## Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The VFM approach is fundamentally unchanged from that adopted in 2016/17 and the process is shown in the diagram below. The diagram overleaf shows the details of the sub-criteria for our VFM work.



# Value for money arrangements work (cont.)

## Value for Money sub-criterion

### Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

### Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

### Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.



# Value for money arrangements work (cont.)

## VFM audit stage



### VFM audit risk assessment

#### Audit approach

We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*.

In doing so we consider:

- The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;
- Information from the Public Sector Auditor Appointments Limited VFM profile tool;
- Evidence gained from previous audit work, including the response to that work; and
- The work of other inspectorates and review agencies.



### Linkages with financial statements and other audit work

#### Audit approach

There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.



### Identification of significant risks

#### Audit approach

The Code identifies a matter as significant '*if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*'

If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Authority, inspectorates and other review agencies; and
- Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

# Value for money arrangements work (cont.)

## VFM audit stage



### Assessment of work by other review agencies, and Delivery of local risk based work

#### Audit approach

Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.

We will also consider the evidence obtained by way of our financial statements audit work and other work already undertaken.

If evidence from other inspectorates, agencies and bodies is not available and our other audit work is not sufficient, we will need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:

- Additional meetings with senior managers across the Authority;
- Review of specific related minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and outside the sector.



### Concluding on VFM arrangements

#### Audit approach

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.



### Reporting

#### Audit approach

We have completed our initial VFM risk assessment and have identified one significant VFM risk. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.

We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

# Value for money arrangements work (cont.)

## Significant VFM Risks

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

### Risk: **Financial resilience**

The Authority has recognised the significant risks associated with the reduction in government funding and the uncertainties around future funding streams and has an established reserves strategy, building up reserves over the last three years to allow time to develop the approach to identifying savings. The General Fund stands at £15 million which is the minimum balance recommended by the Director of Finance. The Authority had £172 million in earmarked reserves at year end which was an underlying decline of around £18.3 million in the year. From this year, the Authority plans for reductions in earmarked reserves as it makes investments in transforming services. The Medium Term Financial Strategy (MTFS) 2017 to 2020 shows a gap in funding of over £58 million up to 2019/20, but the Authority acknowledges that there is a higher underlying gap and that, since there is no allowance for inflation, other than pay awards, that the overall gap for 2019/20 could be higher.

**Approach:** As part of our additional risk based work we will undertake the following procedures over this significant risk:

- review the Authority's Medium Term Financial Plan, and consider the proposed actions to mitigate factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors;
- review the reported actual delivery of the Authority's savings programme compared to planned savings;
- review the arrangements in place to ensure that overall borrowing levels are sustainable;
- review the budget and savings plan for 2018/19, including any contingencies.

**VFM Sub-criterion:** This risk is related to the following Value For Money sub-criterion

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and third parties.

# Other matters

## Whole of government accounts (WGA)

We are required to issue an assurance statement to the National Audit Office confirming the income, expenditure, asset and liabilities of the Authority. Deadlines for completion of this for 2017/18 have not yet been confirmed.

## Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.



# Other matters

## Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the Finance team and the Audit and Risk Committee. Our communication outputs are included in Appendix 1.

## Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

## Audit fee

Our Audit Fee Letter 2017/2018 presented to you in April 2017 first set out our fees for the 2017/18 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Our audit fee may be varied later, subject to agreement with both the s.151 Officer and PSAA, for changes in the Code. Fee variations are likely in respect of the new payroll system and the enhanced audit requirements for an EU PIE. If such a variation is agreed, we will report that to you in due course. The scale fee for 2017/18 is £146,603 compared to 2016/2017 of £146,603 .

Our scale fee in regards to the Authority's Housing benefits audit for 2017/18 is £59,237. This fee is determined by PSAA.

Appendix 1:

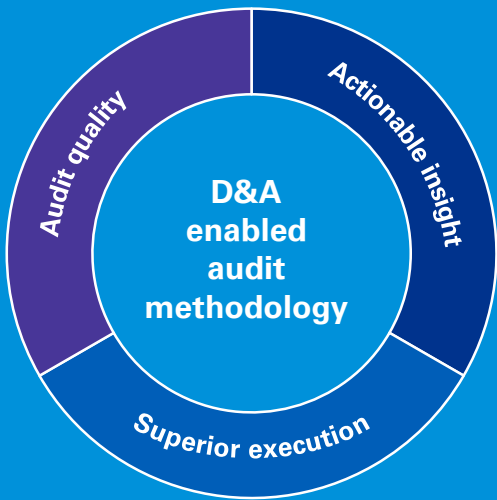
# Key elements of our financial statements audit approach

**Driving more value from the audit through data and analytics**

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. Data and Analytics allows us to:

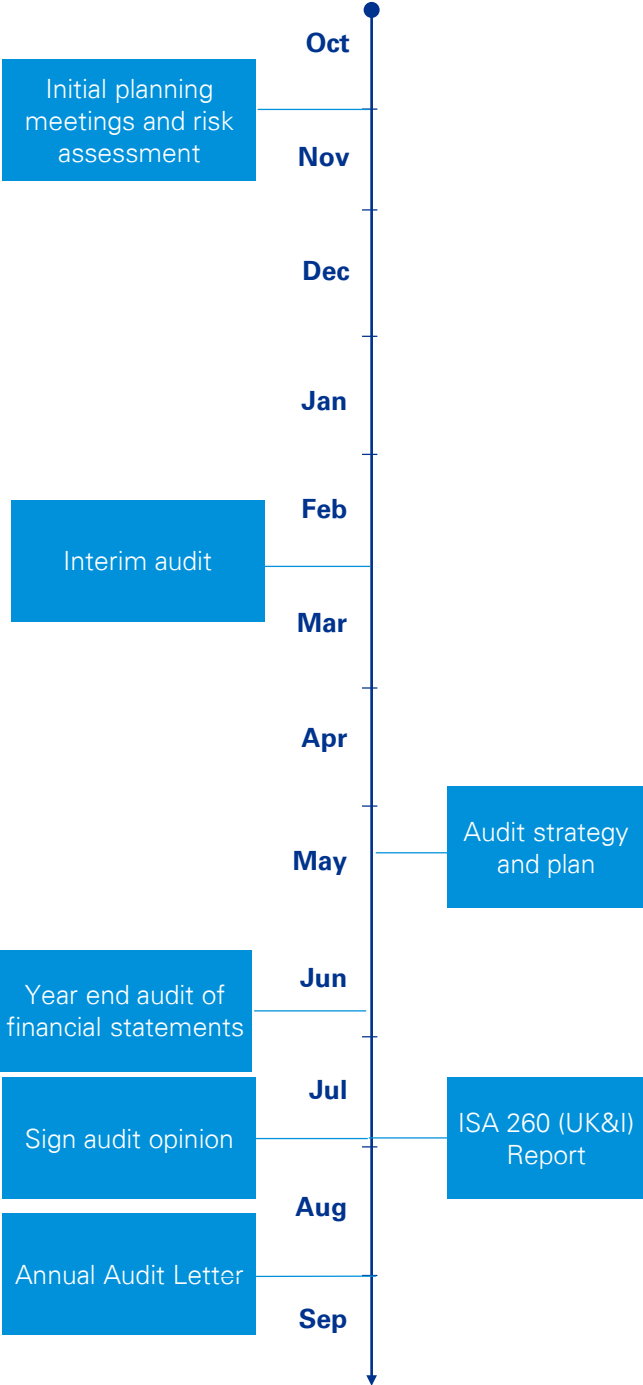
- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as journals.



**Communication**

Continuous communication involving regular meetings between Audit and Risk Committee, Senior Management and audit team.





## Appendix 1:

# Key elements of our financial statements audit approach (cont.)

### Audit workflow

#### Planning

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of managements use of experts; and
- Issuing this audit plan to communicate our audit strategy.

#### Control evaluation

- Understand accounting and reporting activities;
- Evaluate design and implementation of selected controls;
- Test operating effectiveness of selected controls; and
- Assess control risk and risk of the accounts being misstated.

#### Substantive testing

- Plan substantive procedures;
- Perform substantive procedures; and
- Consider if audit evidence is sufficient and appropriate.

#### Completion

- Perform completion procedures;
- Perform overall evaluation;
- Form an audit opinion; and
- Audit and Risk Committee reporting.

## Appendix 2:

# Audit team

Your audit team has been drawn from our specialist public sector assurance department.



**John Cornett**

Director

T: 0116 256 6064

E: [John.Cornett@KPMG.co.uk](mailto:John.Cornett@KPMG.co.uk)

'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit and Risk Committee and Chief Executive.'



**Helen Brookes**

Manager

T: 0115 945 4476

E: [Helen.Brookes@KPMG.co.uk](mailto:Helen.Brookes@KPMG.co.uk)

'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with the Director to ensure we add value. I will liaise with the Director of Finance and Head of Internal Audit.'



## Appendix 3:

# Independence and objectivity requirements

## ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF LEICESTER CITY COUNCIL

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

### Independence and objectivity considerations relating to the provision of non-audit services

#### *Summary of fees*

We have considered the fees charged by us to the authority and its affiliates for professional services provided by us during the reporting period.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following table

### *Analysis of Non-audit services for the year ended 31 March 2018*

See table overleaf.

Appendix 3:

Independence and objectivity requirements  
(cont.)

Independence and objectivity considerations relating to the provision of non-audit services (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Value of Services Delivered in the year ended 31 March 2018	Principal threats to independence and Safeguards Applied.
Additional certification work in regards to Pooling of Capital Receipts Return	£5,000	<b>Self-interest:</b> These engagements are entirely separate from the audit through a separate contract. In addition, the audit fee scale rates were set independently to KPMG by the PSAA (previously Audit Commission). Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.
Additional certification work in regards to Teachers Pension Return	£5,500	<b>Self review:</b> The nature of this other 'assurance' work has no impact on the 2017/18 audit as it relates to 2016/17 financial year. Therefore, it does not impact on our opinion and we do not consider it to be a threat to our role as external auditors.  <b>Management threat:</b> This work involved the certification of these returns only –all decisions were made by the Authority.  <b>Familiarity:</b> This threat is limited given the scale, nature and timing of the work.  <b>Advocacy:</b> We will not act as advocates for the Authority in any aspect of this work. We have drawn on our experience in such roles to certify the returns but the scope of this work falls well short of any advocacy role  <b>Intimidation:</b> Not applicable.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit and Risk Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.



KPMG LLP





**kpmg.com/uk**



This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jonathan Gorrie, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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**Grant Thornton**

An instinct for growth™

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27 April 2018

Dear Alison

## **Planned audit fee for 2018/19**

Further to the conclusion of Public Sector Audit Appointments Ltd (PSAA) audit appointment consultation and our subsequent conversations we are looking forward to working with you and the Council from 2018/19 onwards. One of our first tasks under the contract is to confirm the audit fee with you.

The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. PSAA has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of opted- in local government bodies from 2018/19.

For opted- in bodies PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

From 2018/19 all grant work, including housing benefit certification, now falls outside the PSAA contract, as PSAA no longer has the power to make appointments for assurance on grant claims and returns. Any assurance engagements will therefore be subject to separate engagements agreed between the grant-paying body, the Council and ourselves and separate fees agreed with the Council.

## **Scale fee**

PSAA published the 2018/19 scale fees for opted-in bodies in March 2018, following a consultation process. Individual scale fees have been reduced by 23 percent from the fees applicable for 2017/18. Further details are set out on the [PSAA website](#). The Council's scale fee for 2018/19 has been set by PSAA at £112,884.

PSAA prescribes that *'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'*.

The audit planning process for 2018/19, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

## Scope of the audit fee

There are no changes to the overall work programme for audits of local government audited bodies for 2018/19. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2018/19 will be undertaken under this Code. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return.

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

## Value for Money conclusion

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its latest guidance for auditors on value for money work in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2018	28,221
December 2018	28,221
March 2019	28,221
June 2019	28,221
<b>Total</b>	<b>112,884</b>

## Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2018 to March 2019. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in May and June 2019 and work on the whole of government accounts return in early July 2019.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	December 2018 to March 2019	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	May and June 2019	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	December 2018 to June 2019	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	Early July 2019	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	September 2019	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.

### Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

### Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Mark Stocks, our Public Sector Assurance regional lead partner, via [mark.c.stocks@uk.gt.com](mailto:mark.c.stocks@uk.gt.com).

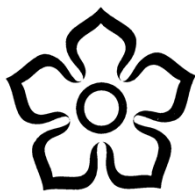
Yours sincerely



**Grant Patterson**  
Director and Engagement Lead  
For Grant Thornton UK LLP







Leicester  
City Council

WARDS AFFECTED  
All

# Appendix D

## FORWARD TIMETABLE OF CONSULTATION AND MEETING

Audit and Risk Committee

13th June 2018

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### Draft Annual Governance Statement 2017 - 2018

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#### Report of the Director of Finance

##### 1. PURPOSE OF THE REPORT

- 1.1. To provide an opportunity for the committee to comment on the Council's Draft Annual Governance Statement 2017 – 2018, before it is brought back to July's committee for formal approval.

##### 2. RECOMMENDATIONS

- 2.1. The committee is asked to consider the Draft Annual Governance Statement 2017 – 2018 and recommend any changes it sees fit.

##### 3. SUMMARY

- 3.1. The Council is required to publish, as part of its financial accounts reporting, an Annual Governance Statement. This statement should assure the people of Leicester that the Council operates in accordance with the law and has due regard to proper standards of behaviour and that it safeguards the public purse. This statement has to be agreed and approved by Committee by the end of July as this forms part of the statement of accounts.

##### 4. REPORT

- 4.1. The format of the statement is dictated to a large extent by the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'. The draft Annual Governance Statement 2017-18, is attached at Appendix 1.
- 4.2. The Draft Annual Governance Statement is being presented here for comment before final approval in July.

## 5. FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report, although the annual governance statement helps to provide assurance about the proper use of the Council's resources.

## 6. LEGAL IMPLICATIONS

There are no direct Legal implications. Kamal Adatia, City Barrister and Head of Standards – 37 1401.

## 7. Other Implications

OTHER IMPLICATIONS	YES/ NO	Paragraph/References Within Supporting information
Risk Management	Yes	All of the paper.
Climate Change	No	
Equal Opportunities	No	
Policy	Yes	All of the paper.
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	

## 8. Consultations

Chief Operating Officer and All Strategic Directors  
All Divisional Directors  
All City Officers  
Finance Division Senior Management Team

## 9. Summary of Appendices

Appendix A – Draft Annual Governance Statement

## 10. Report Author

Amy Oliver  
Chief Accountant – Corporate Accountancy  
X54 5667

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

# LEICESTER CITY COUNCIL

## ANNUAL GOVERNANCE STATEMENT 2017-18

---

### 1. Introduction

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

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

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

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### 2. The Arrangements

The Council works within the governance framework summarised in Appendix 1, and has an approved Local Code of Corporate Governance. The following details how the Council meets the requirements of the framework through the core principles, systems, policies and procedures it has in place.

#### **We have the following codes and rules:**

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

#### **The City Mayor has set out a strategic vision in terms of a number of key pledges which relate to:**

- Connecting Leicester
- Quality public transport
- Transforming the Waterside
- Increasing school places
- Attracting investment, jobs and skills

**The key pledges are supported by the following key plans:**

- Economic Action Plan
- Local Transport Plan
- Health and Wellbeing Strategy
- Sustainability Action Plan
- Children's Improvement Plan
- Heritage Action Plan
- Homelessness Strategy
- Air Quality Action Plan
- Flood Risk Management Strategy
- Departmental performance targets
- Budget Strategy
- Corporate Risk Management Strategy

**We monitor:**

- Delivery of the key plans and strategies
- Performance indicators, particularly in relation to children's and adult's social care
- Delivery of the Budget

**We are transparent in our decision making through:**

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

**We are supported by:**

- Democratic Services including Member and Civic Support Services, who also support member development
- An Organisational Development Team, who ensure effective development of employees

- A Communications function which includes PR, Media and Digital Media Teams
- A staff intranet and established internal communication channels, which provide guidance to staff
- Partnership working on key priorities
- An Information Assurance Team to support our data policies

**We review processes and delivery throughout the year supported by:**

- Internal Audit
- External Audit
- Information Governance
- Audit and Risk Committee
- Annual review of the Local Code of Corporate Governance
- Annual review of the Assurance Framework

Additional information on many of the areas detailed above can be found on the Council's website;  
[www.leicester.gov.uk](http://www.leicester.gov.uk)

---

### **3. Significant Governance Issues**

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

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

## Follow Up of Issues Identified in 2016/17

Last year, the following areas were identified as significant governance issues. The table below sets out the action that has been taken to address these issues in the current year:

Issue Identified	Action taken to date:
<b>Medium Term Financial Strategy</b> - like all local authorities, the Council's financial viability is a key concern at a time of deep funding cuts.	A balanced budget has been agreed for 2018/19, and a further round of savings is planned for 2019/20 through the spending review programme. Budget performance is closely monitored.
<b>2015 OFSTED Inspection</b> – an inspection of Services for Children in Need of Help and Protection, Children Looked After, and Care Leavers graded Leicester's children's services as inadequate.	The Council continued with their improvement plan and were re-inspected during 2017 where the authority was rated overall as Requiring Improvement, with a judgement of Good for Leadership and Management and for Adoption. As a result of the Ofsted re-inspection in 2017, the council submitted a new action plan to Ofsted and the DfE in December 2017. Ofsted have acknowledged receipt and confirmed that the action plan addressed all the issues identified.

## Issues Identified in 2017/18

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

Issue Identified	Planned Action:
<b>Medium Term Financial Strategy</b> - like all local authorities, the Council's financial viability continues to be a key concern at a time of deep funding cuts.	The strategy is updated annually, and delivery of savings continually monitored.
<b>2015 OFSTED Inspection</b> – an inspection of Services for Children in Need of Help and Protection, Children Looked After, and Care Leavers graded Leicester's children's services as inadequate. A follow up inspection took place in 2017 which rated the authority as requiring improvement.	The improvement plan introduced in 2016/17 has been updated and will continue. This will be informed by peer reviews, service plans & the Local Children's Safeguarding Board business plan.

---

#### **4. Conclusion**

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

**The Annual Governance Statement will be approved alongside the audited accounts in July 2018. At that time it will be signed by the City Mayor, Chief Operating Officer and Director of Finance. In this pre-audit Statement of Accounts the AGS is unsigned.**

## **Appendix 1**

### **KEY ELEMENTS OF THE COUNCIL'S GOVERNANCE FRAMEWORK**

Key elements of the governance framework at Leicester City Council are summarised below:

#### **Mayor, Executive and Council**

- Provide leadership, develop and set policy

#### **Decision making**

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

#### **Risk management**

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

#### **Scrutiny and review**

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

#### **Corporate Management Team**

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





Leicester  
City Council

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

**AUDIT & RISK COMMITTEE**

**13<sup>th</sup> June 2018**

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## **DRAFT STATUTORY STATEMENT OF ACCOUNTS 2017/18**

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

#### **1. PURPOSE OF THE REPORT**

- 1.1. To provide an opportunity for the committee to comment on the Council's Draft Statement of Accounts 2017-2018, before it is brought back to July's committee for formal approval.

#### **2. RECOMMENDATIONS**

- 2.1. The committee is asked to consider the Draft Statement of Accounts 2017/18 and recommend any changes it sees fit.

#### **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.
- 3.2. Despite the wide variations in the way the position is presented, the key point is that both the outturn reports and the accounts are consistent.
- 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 available to spend. The level of uncommitted general balances at 31<sup>st</sup>

March 2018 was £15.0m, in line with the Council's financial strategy.

- Comprehensive Income and Expenditure Statement (CIES)

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

- 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.

- 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 Council's Draft Statement of Accounts was published on the website on the 25<sup>th</sup> May 2018. Therefore the Council achieved the earlier deadline of the 31<sup>st</sup> May 2018.

3.5 The External Audit is starting on the 11<sup>th</sup> June; any recommendations identified from this will be reported back to committee in July, along with any alterations made to the draft Statement of Accounts at the auditors' request.

#### **4. FINANCIAL IMPLICATIONS**

4.1. The report is exclusively concerned with financial issues.

#### **5. LEGAL IMPLICATIONS**

5.1. As the report is for noting there are no legal implications arising from the recommendations contained in this report.

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

#### **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**

## **8. CONSULTATIONS**

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

## **9. SUMMARY OF APPENDICES**

Appendix A – Draft Statement of Accounts

## **10. AUTHOR**

Amy Oliver  
Chief Accountant – Corporate Accountancy  
X 54 5667

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





# Draft Statement of Accounts

## 2017/18



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**Cover Image:** Leicester City Council's municipal headquarters at City Hall on Charles Street. Designed by Liverpool architects Leonard Barnish and H. Spencer Silcock, the building was the base for Council staff from its opening in 1938, until 1975 when relocated to new offices at New Walk Centre. City Hall was re-established as the headquarters in 2014 when New Walk Centre was vacated after being deemed to be structurally unsound



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## **SECTION 1 – INTRODUCTORY STATEMENTS**

**This section includes the Narrative Statement, which gives an introduction to the Statement of Accounts, together with a summary of the Council's financial performance during 2017/18 and financial position at 31<sup>st</sup> March 2018.**

**It also contains the Statement of Responsibilities setting out the responsibilities of the Director of Finance and the Audit & Risk Committee in respect of approving the Statement of Accounts.**

**Following completion of the audit of the Council's accounts, this section includes the auditor's report to the members of Leicester City Council detailing their opinion on the financial statements and the authority's arrangements for securing value for money.**

### **NARRATIVE STATEMENT**

#### **1. Introduction**

The Statement of Accounts presents the City Council's financial performance for the year 2017/18. 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. Summary of the year**

##### **Revenue spending and delivery of savings**

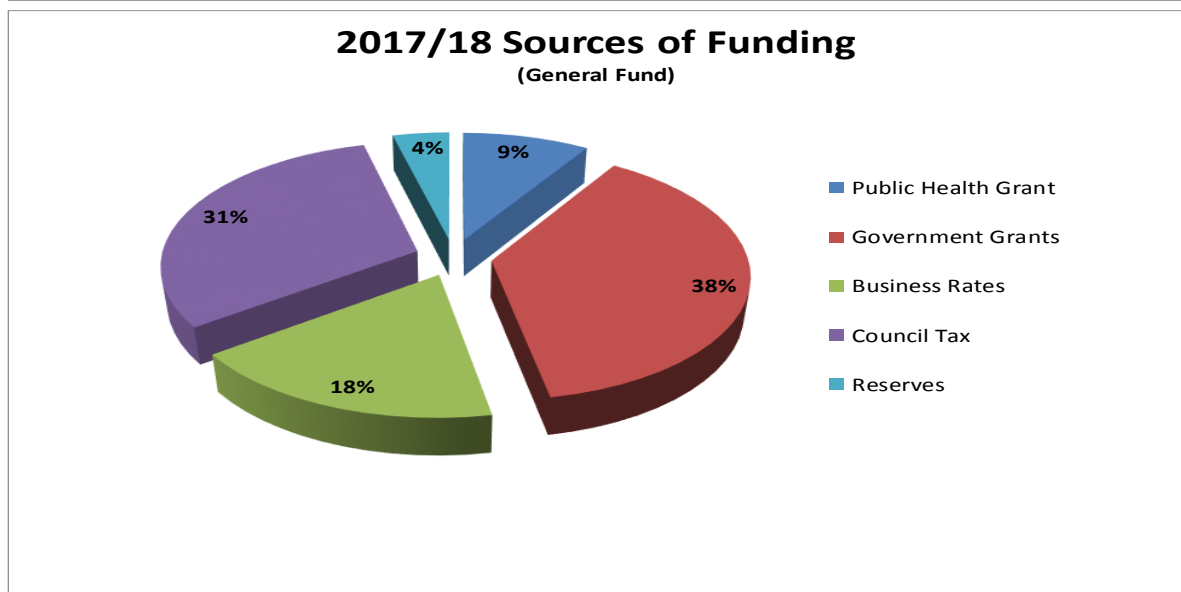
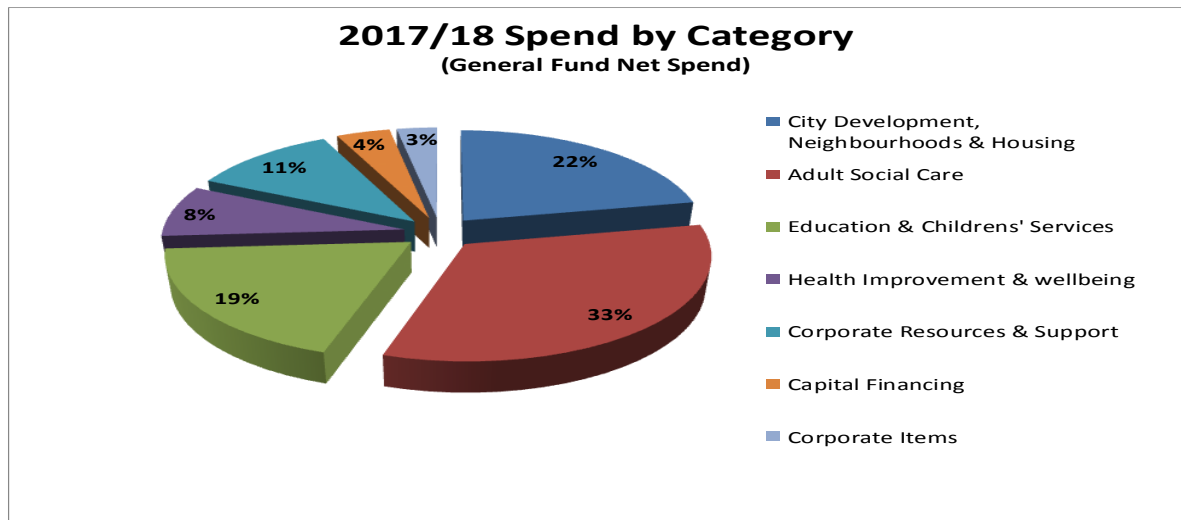
Local government is in the midst of the most substantial funding cuts ever experienced, as a result of the UK Government's programme to reduce the national spending deficit. It is difficult to calculate the amount of grant that the Council has lost due to changes in the system of funding local government but it is estimated that government funding has fallen by £110m per year between 2010/11 and 2017/18, with further reductions planned. Revenue Support Grant fell by £14m (over 20%) in 2017/18 alone.

Despite the cuts, the Council has needed to respond to growing pressure in adult and children's social care, which represents 55% of spending in 2017/18 (up from 36% in 2010/11 on a comparable basis).

The Council is addressing the need to make cuts by a programme of spending reviews, which are seeking savings from a range of service areas. New services

are periodically added to the scope of the programme. 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. 2015/16 was the last year such an increase could be included in the budget.

The pie charts below show the proportions of revenue spend for the main General Fund service areas and the finance sources involved.



## Capital spending

Capital spending of £107m was incurred in 2017/18, an increase from the £97m spent in 2016/17. The increase relates largely to primary and secondary school expansions commencing during the year 2017/18.

<b>Capital Spend 2017-18</b>		
<b>Category</b>	<b>£m</b>	<b>Spend includes;</b>
<b>Planning, Development &amp; Transport</b>	24.4	Waterside Regeneration Area, City Centre street improvements, highways maintenance, transport improvement works.
<b>Housing Revenue Account</b>	18.0	Council housing improvements including environmental and communal works.
<b>Schools</b>	18.9	Primary and secondary school expansions, completion of the BSF secondary school initiative and schools maintenance works.
<b>Tourism, Culture &amp; Inward Investment</b>	8.7	Leicester Market redevelopment, Haymarket Theatre investment, De Montfort Hall and museum improvements.
<b>Estates &amp; Building Services</b>	10.4	Property Maintenance and office accommodation for inward investment / administration.
<b>Neighbourhood &amp; Environmental Services</b>	1.0	Victoria Park and Saffron Hill Cemetery improvements and the remodelling of neighbourhood service buildings.
<b>Housing General Fund</b>	2.0	Disabled facilities grants, repayable home repair loans, acquisition of empty properties and Fleet vehicle additions.
<b>Other</b>	2.8	City Centre property acquisitions, improvements to Children's Residential Homes, Adult Social Care capital projects and ICT investment.
<b>Sub total*</b>	<b>92.2</b>	
<b>Leicester &amp; Leicestershire Economic Partnership</b>	15.2	Spend of Local Growth Fund, and other grants, on projects in the City & County. Projects within the City include Leicester College Skills & Innovation Village and works at Pioneer Park.
<b>TOTAL</b>	<b>101.4</b>	

\*A total of £27.7m of Local Growth Fund monies were paid out by LLEP. £12.5m of this sum is included in the main categories of spend above the sub-total in the table.

During the 2017/18 financial year, the Council realised £9.9m of General Fund capital receipts. These include the sales of the former St Mary's Allotment land, Blackbird Road playing fields and land at Ashton Green. These will be used to help fund the future capital programme.

"Right to Buy" receipts from sales of Council dwellings amounted to £18.6m, an increase on 2017/18 receipts despite a small reduction in the number of houses sold during the year. It is expected that around half of this sum will be ring-fenced for affordable housing.

## **Financial investments & cash management**

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

The Council had financial investments amounting to £225m at the end of the year. This is an increase of £53m, although the position at 31<sup>st</sup> March is a snapshot at a point in time. Balances change depending on operational cash requirements and were up to £275m at times during 2017/18. The general trend of increasing balances arises as the Government now supports all new government funded capital schemes by grant, and government rules dis-incentivise the use of Minimum Revenue Provision to repay actual debt.

The key issue for treasury strategy therefore has been, and will continue to be, the investment of cash balances in an uncertain environment and a changing regulatory framework. The Council's treasury strategy seeks to manage cash and investments to achieve a balance between the rate of return and the security of the investment, with the priority being the security of the investment. In particular, "bail in" rules mean that the Council's deposits could be forcibly restructured if a bank runs into trouble, which requires us to diversify our holdings.

## **Long-term borrowing**

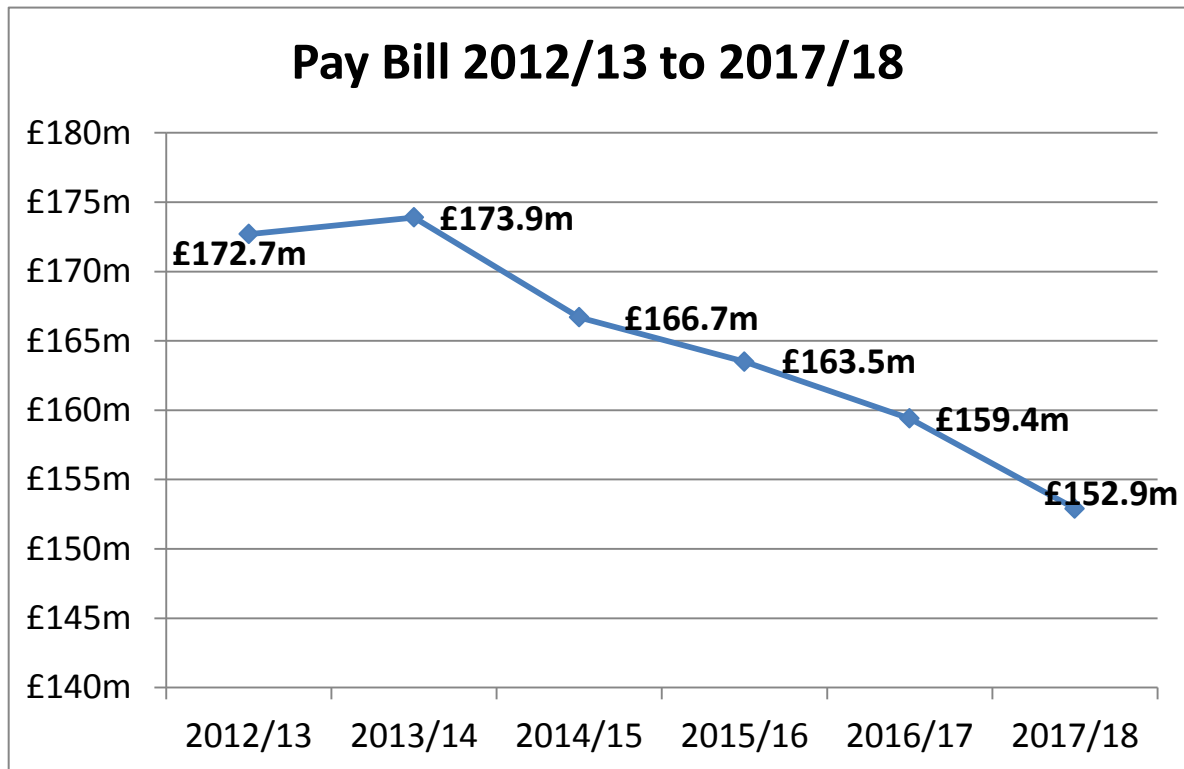
The City Council has some £234m of long term borrowing. Most of this results from a former government regime under which authorities received revenue support for borrowing to undertake capital projects. Support for such projects now takes the form of capital grants.

The City Council also has long term liabilities of £77m in the form of PFI schemes for schools, the waste recycling centre and Combined Heat and Power (CHP) infrastructure, and finance leases. The Council receives revenue support for some of the PFI schemes.

## **Debt Raised**

The Council raises a substantial amount of invoice debt each year. The main categories are: council tax (£121m), business rates (£101m), of which 49% is retained for use locally, housing rents (£77m), and sundry debts raised on the accounts receivable system (£100m).

**Employees:** The table below shows that the Council's pay bill has been falling significantly since 2013/14.



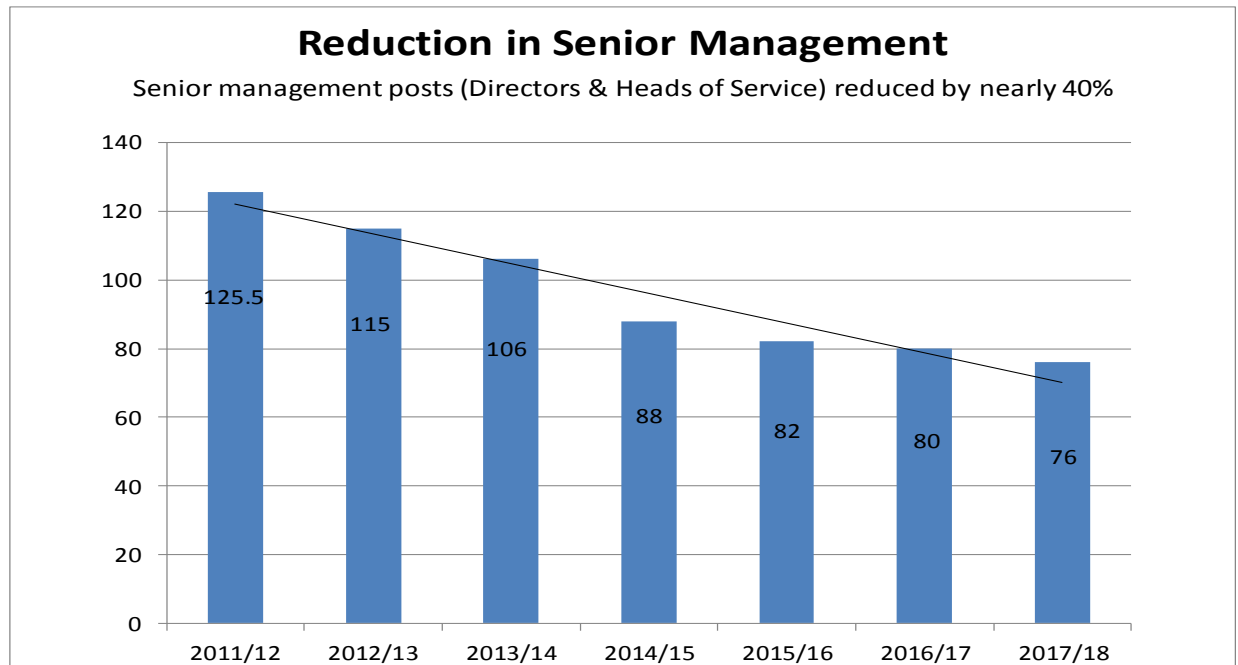
The pay bill excludes the costs of hiring agency staff

There were 12,755 (14,084 at 31/3/17) employees being paid by the end of the year. Of this figure 6,655 were non-schools (7,054 at 31/3/17) and 6,100 non-schools (7,030 at 31/3/17).

The Hutton Report on fair pay recommended that local authorities should publish the ratio of the top earners pay to the median earner in the authority (excluding schools' staff and apprentices). At Leicester City Council the ratio, based on the top earner's salary of £130,048 and a median salary of £24,174, is 5.38:1. The ratio of has reduced since last year (5.74:1), when the median salary was £22,658.

The ratio is significantly lower than for neighbouring unitary councils; Nottingham City Council, Derby City Council and Coventry City Council, which all had a ratio of more than 7:1 in 2016/17.

The impact of recent budget savings on senior management posts is shown in the graph below:



## Land & Property

The City Council had some £2.4bn of land, property, infrastructure and plant and equipment assets on its books as at 31<sup>st</sup> March 2018. This includes council housing stock (20,759 dwellings), buildings and land in respect of 69 schools, operational and administrative buildings and surplus land and buildings held for future development or for more immediate disposal.

Key projects within the 2017/18 capital programme that are expected to continue spending in 2018/19 and beyond are the Leicester North West transport scheme, the North City Centre access scheme, creation of additional school places and redevelopment of the Waterside. The Council approved a new capital programme of £122m for 2018/19 and 2019/20 in November 2018 that focusses primarily on neighbourhood works, for instance, over £100m being made available to create new school places in response to rising demand.

### **3. Reserves**

The Council's uncommitted General Fund reserves stood at £15m on 31<sup>st</sup> March 2018, unchanged from the balance at the end of 2016/17. This is retained as an emergency fund.

The Council's reserves which are earmarked for specific purposes decreased slightly to £168m. These reserves include:-

- a) reserves which the law only allows use to use for certain expenditure
- b) reserves which will be spent on the approved capital programme for 2018/19 to 2019/20 (£41m)
- c) money to support the Council's managed reserves strategy (£21.8m). This is a key element of the Council's budget strategy and is used to buy time to implement savings. The whole of this money will be spent by 2019/20.
- d) money set aside to complete the Council's Building Schools for the Future programme (£12m). This is a substantial programme of improvement to all secondary schools in the city which is nearing completion.

The balance of earmarked reserves is set aside for a variety of purposes including self-insurance, IT renewals, service transformation, staff severance and support to departments' budget positions.

The Council's total usable reserves increased by £22m. This reflects the impact of the HRA surplus for 2017/18 of £7.4m and of capital receipts generated of £30m (of which £18m was for the sale of council dwellings, under the Right to Buy scheme).

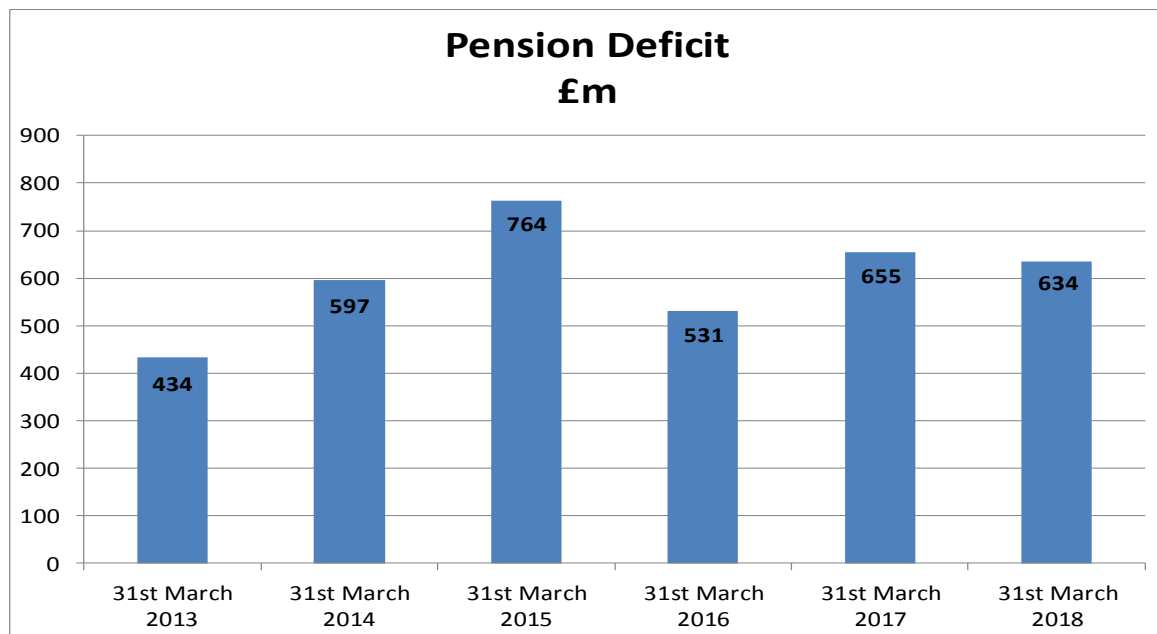
### **4. Pensions**

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 share of the pension fund shows a significant deficit (£634m). 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 reduced by £21m in the year. Variations between years will occur, principally due to the impact of changes in assumptions made by the scheme actuaries about the growth of future liabilities and the rates of return on the fund's investments.



The graph below illustrates the volatility that can occur on a year-by-year basis because of these changes, and hence, the limited context in which annual movements should be viewed.



The underlying position of the fund remains a substantial deficit that will have an increasing financial impact on the Council over the medium to long-term. The deficit has no immediate impact on the revenue budget, but will be a factor in calculating employers' contributions from 2019/20 following the next actuarial valuation of the fund. Prudent assumptions on employers' contributions have been included in the Council's financial strategy.

Full accounts of the Leicestershire scheme can be found at:  
<http://www.leics.gov.uk/pensions.htm>

## 5. Service Improvement

**Adult Social Care** (ASC) has the highest net budget in the Council's General Fund. Six strategic priorities were set for 2017/18 which were based around:

- a) Improving and developing services to support more older people to remain at home, to increase opportunities for those of working age to live independently in a home of their own, and to support young people with care and support needs as they move into adulthood.
- b) Improving the experience for all ASC clients whether they are supported directly by Council staff or via commissioned services provided by third parties and protecting adults who need care and support from harm and abuse.

Key performance indicators were devised to measure progress against these priorities. In overall terms significant progress has been made since 2016/17, with 65% of the indicators showing improvement and a further 10% unchanged. Customer satisfaction levels have either improved or remained at high levels, with results from the National Adult Care User Survey showing overall satisfaction rising from 61.7% in 2015/16 to 65.4% in 2016/17.

**Education and Children's Services** oversees funding for education and schools through the Dedicated Schools Grant, as well as providing other services. The most significant of the latter is children's social care.

In 2017 an Ofsted Inspection identified that the weaknesses identified in the previous inspection (2015) had been addressed but that the department continued to require improvement. The inspection found that leadership and management of the department and adoption performance was good.

The vision of the Council states that "by 2020 Leicester's Education and Children's Services will be a professional, dynamic and forward thinking service working with partners to provide the best quality experiences for children and young people to be safe, learn, achieve and grow."

The department has a wide range of performance indicators and measures which are reviewed on a monthly or annual basis. Significant improvement has been made in the previous year across a number of these measures despite increasing numbers of children in the city. Education and school performance measures show that education provision is improving and having a positive impact on children's outcomes. Improvement in the support for more vulnerable children is demonstrated through the improved Ofsted judgement.

## **Complaints**

The Council is statutorily required to have procedures in place to consider complaints and representations for children's and adults' social care services. Complaints received in respect of other services are handled via the Council's (non-statutory) corporate complaints procedure.

In total, 920 **corporate complaints** were received in 2017/18, which were investigated under the procedure. The total of 920 complaints compares to 1,555 cases in 2016/17.

25% of the complaints investigated were held to be either partially or wholly justified; this was in line with the previous year.

The highest proportion of cases involved the quality and/or speed of service received. Council policies and procedures, and staff attitude and behaviour accounted for the other significant proportions of cases.

The housing service and local taxation services were the areas which received the highest number of complaints. Within Housing Services it is noticeable that Housing repairs complaints have reduced by 33% from the previous year. In Local Taxation online access reduced complaints by 48% to 99 in 2017/18 from 191 in 2016/17.

The complaints team identified a number of service improvements which are being implemented.

For **Adult Social Care complaints** a two stage process is employed, with the focus on in-house resolution at stage one and the involvement of the Local Government & Social Care Ombudsman at stage two.

In total, 74 statutory complaints were considered in 2017/18, a decrease of 20% on the previous year. 31% of the complaints were either partially or fully upheld, compared to 42% in 2016/17. The largest proportion of complaints received were made in relation to service users within the 25-50 year age group.

The three main reasons for complaints received in the last year were in relation to challenging practice decisions, staff attitude/behaviour and failure to undertake tasks.

Complaints are followed up to make sure that any learning points are highlighted and measures taken to avoid further repetition.

Under the complaints procedure, commendations are also received and noted. A decrease of 7% was recorded in 2017/18, with 235 commendations being received.

The **Children's Social Care complaints** procedure has 3 stages – local resolution, an independent investigation and an independent review panel. Complainants who remain dissatisfied after exhausting the 3 stages may approach the Local Government Ombudsman.

During 2017/18, 115 statutory complaints were received. This is an increase of 10.6% on 2016/17.

The statutory timescale for responding to a stage 1 complaint is 20 working days. 100% of stage 1 complaints were responded to within statutory timescales this year compared to 93% last year.

The 2 most common areas of complaint were challenging a practice decision and poor communication.

## **6. Future Issues and Conclusions**

The Council will need to make further cost savings, as Revenue Support Grant falls from £48m in 2017/18 to an expected £28m in 2019/20 and unavoidable spending pressures continue. The Council's current budget strategy aims to manage spending within the planned level of resources.

The funding position after 2019/20 is unclear. The government plans to make significant changes to the funding landscape for local authorities, with the local retention of 75% of business rates income and the introduction of a new funding formula. The wider economic position also remains a risk, and the impact of Brexit is not yet known. Further uncertainty remains in relation to the roll out Universal Credits and the impact it will have on the Council.

Pressures on social care spending are also predicted to continue. While this is acknowledged as a national pressure, there is no consensus on the means of meeting these costs in the future. National policy developments may involve significant changes to the responsibilities and funding of local authorities in relation to social care.

It is likely that more schools will convert to academy status in the coming years. This will result in the transfer of an increasing proportion of services and assets to other bodies.

### ***In conclusion this narrative section highlights that:***

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

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

## **7. Structure of the Statement of Accounts and Core Accounting Statements**

This Statement of Accounts aims to assist readers in gaining a thorough understanding of the Council's financial position. It is divided into discrete sections that provide readers with different kinds of information:

Core accounting statements provide an overview of the financial position at 31<sup>st</sup> March 2018 and financial performance in the 2017/18 year. The statements comprise the **Movement in Reserves Statement**, the **Comprehensive Income and Expenditure Statement**, the **Balance Sheet** and the **Cash Flow Statement**. Alongside these core statements sits the new **Expenditure and Funding Analysis**.

Users wishing to see the clearest overall view of the change in the Council's resources in the year are directed to the Expenditure and Funding Analysis and the Movement in Reserves Statement.

A number of **notes to the accounts** provide information supporting and expanding the core statements, and a range of additional disclosures. These notes are grouped so that, as far as possible, items are presented in close proximity to other relevant information

Two **supplementary accounting statements** are included in these accounts.

- The **Housing Revenue Account (HRA)** is a statutory ring-fenced account relating to the provision of rented social housing. The Movement in HRA Income and Expenditure Statement shows a surplus of £7.4m.
- 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 for 2017/18 of £6.0m.

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

## **8. Accounting Policies and Other Significant Changes**

The Council's accounting policies set out how it applied the Code of Practice in areas where there is scope for interpretation or different judgements.

Only minor amendments have been made to the accounting policies in 2017/18. These are aimed at providing users with greater clarity.

The Council's accounting policies, and details of changes to these in the year, are set out in section 6 of this Statement of Accounts.

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Council's Responsibilities

The Council is required to:

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

These accounts were approved at a meeting of the Audit & Risk Committee on the .....2018.

Cllr .....Date .....

### The Director of Finance's Responsibilities

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

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

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

The Director of Finance has also:

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

I certify that the Statement of Accounts has been prepared in accordance with proper practices and presents a true and fair view of the financial position of the City Council and its income and expenditure for the year ended 31<sup>st</sup> March 2018.

Signed:



Alison Greenhill CPFA, Director of Finance

Date: 25/5/18

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## **SECTION 2 – CORE FINANCIAL 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” (those that can be applied to fund expenditure or reduce local taxation) and unusable reserves which contain items that illustrate the difference between the Council’s financial position under accounting standards (the “accounting basis”) and the amount charged to the taxpayer for the year (the “funding basis”).

The accounting basis and the funding basis serve two purposes. The accounting basis exists to ensure that the Council presents the most reliable financial position in respect of its underlying assets, liabilities, income and expenditure in accordance with International Financial Reporting Standards.

The funding basis is derived from legislation – the Council is obliged by law to set its budget and raise Council Tax on this basis. It exists to insulate the taxpayer from the volatility that can be caused by the impact of accounting adjustments on the bottom line. Whilst these adjustments are important to reflect changes in circumstances in, for example, the pension liability or the value of property assets, these movements do not have an immediate impact on the level of resource that can be spent on public services or the level of taxation required to support them.

A reconciliation of the movements between the accounting and funding basis is provided at Note 6.

The Movement in Reserves Statement shows that the Council’s total usable reserves increased by £22.3m in 2017/18. The Housing Revenue Account (HRA) working balance increased by £7.4m, and total general fund earmarked reserves decreased by £3.5m.

The Council’s General Fund balance (the uncommitted monies held to support day-to-day operations and manage unexpected events) remained unchanged from the previous year at £15m.

The **Comprehensive Income and Expenditure Statement** shows the Council’s actual financial performance for the year on the accounting basis, measured in terms of the resources consumed and generated over the financial period under the relevant accounting standards. This statement is prepared on the accounting basis and shows a surplus in 2017/18 of £46.8m.

The Net Cost of Services is now reported to mirror the Council's financial reporting to members, which is a move away from the previous SeRCOP reporting requirement.

Total comprehensive income and expenditure includes various transactions which illustrate aspects of the Council's financial position but do not impact on the 'bottom line' amounts chargeable to taxpayers, in particular gains on the revaluation of pension liabilities (£58m) and gains on revaluation of property assets (£132m).

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

The top of the Balance Sheet shows the Council's net assets. Assets include property, plant & equipment, intangible assets, amounts owed to the Council and the Council's cash and financial investments. Liabilities include amounts owed by the Council (including conditional funding received), provisions made in respect of future events (see Note 15), the Council's borrowing and the deficit on the Council's pension fund.

The bottom of the Balance Sheet shows how the Council's net assets are financed by reserves, which are divided into usable and unusable reserves. More information on these reserves is given in Notes 3, 4 & 6, and the change in the level of reserves is reconciled in the Movement in Reserves Statement, as outlined above.

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.

### Movement in Reserves Statement 2017/18

2017/18	Note	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
Balance at 31st March 2017 brought forward		(15,000)	(171,675)	(23,348)	(1,200)	(54,950)	(30,756)	(296,929)	(1,154,372)	(1,451,301)
Total Comprehensive Expenditure and Income		132,236	-	11,271	-	-	-	143,507	(190,311)	(46,804)
Adjustments between accounting basis & Funding basis under regulation	7	(128,763)	-	(18,668)	1,200	(29,792)	10,203	(165,820)	165,820	-
Transfers to/(from) Earmarked Reserves	4	(3,473)	3,473	-	-	-	-	-	-	-
Balance at 31st March 2018 carried forward		(15,000)	(168,202)	(30,745)	-	(84,742)	(20,553)	(319,242)	(1,178,863)	(1,498,105)

### Movement in Reserves Statement 2016/17

2016/17	Note	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
Balance at 31st March 2016 brought forward		(15,000)	(190,021)	(17,551)	(1,200)	(28,014)	(41,584)	(293,370)	(1,157,915)	(1,451,285)
Total Comprehensive Expenditure and Income		144,701	-	(203,875)	-	-	-	(59,174)	59,158	(16)
Adjustments between accounting basis & Funding basis under regulation	7	(126,355)	-	198,078	-	(26,936)	10,828	55,615	(55,615)	
Transfers to/(from) Earmarked Reserves	4	(18,346)	18,346	-	-	-	-	-	-	-
Balance at 31st March 2017 carried forward		(15,000)	(171,675)	(23,348)	(1,200)	(54,950)	(30,756)	(296,929)	(1,154,372)	(1,451,301)

## Comprehensive Income & Expenditure Statement

2016/17					2017/18		
Gross Exp £000	Income £000	Net Exp £000		Note	Gross Exp £000	Income £000	Net Exp £000
218,275	(71,568)	146,707	City Development & Neighbourhoods		209,865	(69,187)	140,678
77,653	(84,872)	(7,219)	Housing Revenue Account (HRA)		83,840	(86,742)	(2,902)
154,883	(43,520)	111,363	Adult Social Care		147,666	(54,237)	93,429
29,008	(33,726)	(4,718)	Health Improvement & Wellbeing		26,701	(32,730)	(6,029)
461,289	(350,025)	111,264	Education & Children's Services		437,322	(335,798)	101,524
40,001	(8,801)	31,200	Corporate Resources & Support		41,983	(7,680)	34,303
128,740	(129,702)	(962)	Housing Benefits		121,249	(121,777)	(528)
(5,167)	(5,791)	(10,958)	Corporate Items		(7,471)	(446)	(7,917)
34	(545)	(511)	Capital Financing		31	(517)	(486)
(213,329)	-	(213,329)	Housing Revenue Account - Reversal of prior year impairments *	25	-	-	-
<b>891,387</b>	<b>(728,550)</b>	<b>162,837</b>	<b>Cost of Services</b>		<b>1,061,186</b>	<b>(709,114)</b>	<b>352,072</b>
		41,849	Other Operating Expenditure	22			51,622
		38,322	Financing and Investment Income and Expenditure	23			36,441
		(302,182)	Taxation and Non-Specific Grant Income	24			(296,628)
		<b>(59,174)</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>21</b>			<b>143,507</b>
		(48,705)	(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets	6			(132,132)
		107,863	Remeasurement of the Net Defined Benefit Liability	13			(58,179)
		<b>59,158</b>	<b>Other Comprehensive Income &amp; Expenditure</b>				<b>(190,311)</b>
		<b>(16)</b>	<b>Total Comprehensive Income &amp; Expenditure</b>				<b>(46,804)</b>

\*Reversal of prior year impairment of HRA assets, resulting from an upward revaluation of the Council housing stock during 2016/17.

## Balance Sheet

31st March 2017 £000		Note	31st March 2018 £000
2,253,458	Property, Plant & Equipment	31	2,258,983
109,053	Heritage Assets	33	111,409
2,627	Intangible Assets	32	3,374
4,990	Long Term Investments	37	32,500
9,855	Long Term Debtors	40	8,965
<b>2,379,983</b>	<b>Long Term Assets</b>		<b>2,415,231</b>
168,026	Short Term Investments	37	192,380
14,582	Assets Held For Sale (<1 year)	34	4,284
2,423	Inventories	39	2,758
50,242	Short Term Debtors	40	50,653
18,336	Cash and Cash Equivalents	42	44,068
<b>253,609</b>	<b>Current Assets</b>		<b>294,143</b>
(10,292)	Short Term Borrowing	37	(19,995)
(133,445)	Short Term Creditors	41	(163,838)
(4,467)	Provisions (<1 year)	16	(4,467)
<b>(148,204)</b>	<b>Current Liabilities</b>		<b>(188,300)</b>
(7,792)	Provisions (>1 year)	16	(7,855)
(243,063)	Long Term Borrowing	37	(234,495)
(770,227)	Other Long Term Liabilities	37	(743,818)
(13,005)	Capital Grants Receipts in Advance	26	(36,801)
<b>(1,034,087)</b>	<b>Long Term Liabilities</b>		<b>(1,022,969)</b>
<b>1,451,301</b>	<b>Net Assets</b>		<b>1,498,105</b>
	<u>Represented by:</u>		
296,929	Usable Reserves	3	319,242
1,154,372	Unusable Reserves	6	1,178,863
<b>1,451,301</b>	<b>Total Reserves</b>		<b>1,498,105</b>



## Cash Flow Statement

2016/17 £000		Note	2017/18 £000
59,174	Net surplus or (deficit) on the provision of services		(143,507)
50,846	Adjustments to net surplus or deficit on the provision of services for non-cash movements	43	271,131
(85,665)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing or financing activities	43	(95,695)
<b>24,355</b>	<b>Net cash flows from Operating Activities</b>		<b>31,929</b>
(22,667)	Net cash flows from Investing Activities	44	(4,117)
2,525	Net cash flows from Financing Activities	45	(2,080)
<b>4,213</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>		<b>25,732</b>
14,123	Cash (in hand), overdraft and cash equivalents at the beginning of the reporting period		18,336
<b>18,336</b>	<b>Cash (in hand), overdraft and cash equivalents at the end of the reporting period</b>	<b>42</b>	<b>44,068</b>

## **SECTION 3 – NOTES TO THE CORE FINANCIAL STATEMENTS**

### **Notes Relating to the Council's Overall Financial Position**

The notes in this section give further information on the Council's overall financial position by detailing:

- The Council's usable reserves, including earmarked reserves
- The Council's capital expenditure in the year, and the sources of finance used to support it
- The unusable reserves and adjustments that are required to comply with statutory accounting requirements for local government
- The Expenditure and Funding Analysis, which presents the Council's expenditure and income, as it is managed in practice, and compares this with the presentation required for purposes of generally accepted accounting practice.

They will help users understand the resources the Council has to support future revenue and capital expenditure, and the change in these resources over 2017/18. Additionally, they detail important aspects of the Council's financial position which are reflected (under statutory requirements) in the unusable reserves, including pension liabilities and gains on the revaluation of property.

#### **1. Authorisation of Accounts**

This Statement of Accounts was authorised for presentation on the 31<sup>st</sup> May 2018 by Alison Greenhill CPFA, Director of Finance and s151 Officer. All events up to and including 31<sup>st</sup> May 2018 have been considered in these accounts.

## 2. Expenditure & Funding Analysis 2017/18

2017/18	Net Expenditure Charged to the HRA & General Fund Balance	Adjustments Between Accounting & Funding Basis	Net Expenditure on the Comprehensive Income & Expenditure Statement
	£000	£000	£000
City Development & Neighbourhoods	42,022	98,656	140,678
Housing Revenue Account (HRA)	(19,784)	16,882	(2,902)
Adult Social Care	89,324	4,105	93,429
Health Improvement & Wellbeing	(6,671)	642	(6,029)
Education & Children's Services	63,837	37,687	101,524
Corporate Resources & Support	31,328	2,975	34,303
Housing Benefits	(528)	-	(528)
Corporate Items	26,091	(34,008)	(7,917)
Capital Financing	(486)	-	(486)
<b>Cost of Services</b>	<b>225,133</b>	<b>126,939</b>	<b>352,072</b>
Other Operating Expenditure	51,622	-	51,622
Financing and Investment Income and Expenditure	19,097	17,344	36,441
Taxation and Non-Specific Grant Income	(299,776)	3,148	(296,628)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(3,924)</b>	<b>147,431</b>	<b>143,507</b>

Movement in Balances	General Fund	HRA	Total
Opening Balance	(15,000)	(23,348)	(38,348)
Surplus or Deficit in the Year	3,473	(7,397)	(3,924)
Net Transfers to/from Earmarked Reserves (General Fund only)	(3,473)	-	(3,473)
<b>Closing Balance</b>	<b>(15,000)</b>	<b>(30,745)</b>	<b>(45,745)</b>

## 2. Expenditure and Funding Analysis 2016/17

2016/17	Net Expenditure Charged to the HRA & General Fund Balance	Adjustments Between Accounting & Funding Basis	Net Expenditure on the Comprehensive Income & Expenditure Statement
	£000	£000	£000
City Development & Neighbourhoods	42,764	103,943	146,707
Housing Revenue Account (HRA)	(14,080)	6,861	(7,219)
Adult Social Care	104,364	6,999	111,363
Health Improvement & Wellbeing	(4,914)	196	(4,718)
Education & Children's Services	70,595	40,669	111,264
Corporate Resources & Support	37,830	(6,630)	31,200
Housing Benefits	(962)	-	(962)
Corporate Items	26,350	(37,308)	(10,958)
Capital Financing	(511)	-	(511)
Housing Revenue Account - Reversal of Prior Year Impairments	-	(213,329)	(213,329)
<b>Cost of Services</b>	<b>261,436</b>	<b>(98,599)</b>	<b>162,837</b>
Other Operating Expenditure	1,756	40,093	41,849
Financing and Investment Income and Expenditure	10,224	28,098	38,322
Taxation and Non-Specific Grant Income	(260,867)	(41,315)	(302,182)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>12,549</b>	<b>(71,723)</b>	<b>(59,174)</b>

Movement in Balances	General Fund	HRA	Total
Opening Balance	(15,000)	(17,551)	(32,551)
Surplus or Deficit in the Year	18,346	(5,797)	12,549
Net Transfers to/from Earmarked Reserves (General Fund only)	(18,346)	-	(18,346)
<b>Closing Balance</b>	<b>(15,000)</b>	<b>(23,348)</b>	<b>(38,348)</b>

### 3. Usable Reserves

Movements in the Council's usable reserves are detailed in the table below, which indicates the statement or note that provides further detail.

	Opening Balance £000	Movement £000	Closing Balance £000	Supporting Note
General Fund	(15,000)	-	(15,000)	MIRS and Narrative Statement
Earmarked Reserves	(171,675)	3,473	(168,202)	Note 4 and Narrative Statement
Housing Revenue Account	(23,348)	(7,397)	(30,745)	HRA Statements and Notes
Major Repairs Reserve	(1,200)	1,200	-	Note 7 and HRA Note 13
Capital Receipts Reserve	(54,950)	(29,792)	(84,742)	Note 7
Capital Grants Unapplied Reserve	(30,756)	10,203	(20,553)	Note 7
<b>Total Usable Reserves</b>	<b>(296,929)</b>	<b>(22,313)</b>	<b>(319,242)</b>	

### 4. Earmarked Reserves

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

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

#### 4. Earmarked Reserves continued

2017/18	Balance at 31st March 2017 £000	Transfers In 2017/18 £000	Transfers Out 2017/18 £000	Balance at 31st March 2018 £000
<b>Ring-fenced Reserves</b>				
DSG not delegated to schools	14,205	408	(2,710)	11,903
School Balances	14,474	5,664	(4,353)	15,785
School Capital Fund	2,993	7	(617)	2,383
NHS Joint Working Projects	1,769	4,573	(4,573)	1,769
Public Health Transformation	1,668	-	-	1,668
Schools Buy Back	771	302	-	1,073
Secondary PRU - Year End Balance	213	-	(122)	91
Primary PRU - Year End Balance	(6)	20	-	14
<b>Total Ring-fenced Reserves</b>	<b>36,087</b>	<b>10,974</b>	<b>(12,375)</b>	<b>34,686</b>
<b>Corporate Reserves</b>				
Capital Programme Reserve	37,498	12,161	(8,264)	41,395
Managed Reserves Strategy	27,496	12,038	(17,710)	21,824
Demographic Pressures Reserve (19/20-20/21)	-	3,455	-	3,455
BSF Financing	18,595	2,262	(9,324)	11,533
Severance Fund	11,032	-	(3,767)	7,265
Service Transformation Fund	7,301	-	(1,215)	6,086
Insurance Fund	6,664	27,428	(24,993)	9,099
Welfare Reform Reserve	4,077	424	(710)	3,791
Energy Fund	1,107	-	(135)	972
Technical Accounting Reserve	1,046	215	(77)	1,184
<b>Total Corporate Reserves</b>	<b>114,816</b>	<b>57,983</b>	<b>(66,195)</b>	<b>106,604</b>
<b>Earmarked Reserves Departmental</b>				
Financial Services Reserve	3,347	1,470	(946)	3,871
ICT Development Fund	2,959	153	(502)	2,610
Channel Shift Reserve	1,648	-	(589)	1,059
Delivery, Communications & Political Governance	587	714	-	1,301
Voluntary Sector Prospective Work	1,500	-	-	1,500
PC Replacement Fund	1,297	82	(220)	1,159
Housing	1,179	236	(4)	1,411
City Development (Excl Housing)	1,092	158	(133)	1,117
Election Fund	1,020	-	-	1,020
Children's Services	1,127	-	-	1,127
Health & Wellbeing Division	736	1,000	(265)	1,471
Adults Strategic Reserve (Budget 18/19)	141	4,494	(141)	4,494
Other Departmental Reserves	4,139	2,067	(1,434)	4,772
<b>Total Other Reserves</b>	<b>20,772</b>	<b>10,374</b>	<b>(4,234)</b>	<b>26,912</b>
<b>Total Earmarked Reserves</b>	<b>171,675</b>	<b>79,331</b>	<b>(82,804)</b>	<b>168,202</b>

#### 4. Earmarked Reserves continued

2016/17	Restated Balance at 31st March 2016 £000	Transfers In 2016/17 £000	Transfers Out 2016/17 £000	Balance at 31st March 2017 £000
<b>Ring-fenced Reserves</b>				
DSG not delegated to schools	16,705	-	(2,500)	14,205
School Balances	19,583	3,022	(8,131)	14,474
School Capital Fund	2,829	561	(397)	2,993
NHS Joint Working Projects	5,275	-	(3,506)	1,769
Public Health Transformation	-	1,668	-	1,668
Schools Buy Back	923	1,122	(1,274)	771
Secondary PRU - Year End Balance	175	38	-	213
Primary PRU - Year End Balance	71	-	(77)	(6)
<b>Total Ring-fenced Reserves</b>	<b>45,561</b>	<b>6,411</b>	<b>(15,885)</b>	<b>36,087</b>
<b>Corporate Reserves</b>				
Capital Programme Reserve	17,125	22,948	(2,575)	37,498
Managed Reserves Strategy	45,850	5,123	(23,477)	27,496
Demographic Pressures Reserve (19/20-20/21)	-	-	-	-
BSF Financing	24,812	1,075	(7,292)	18,595
Severance Fund	8,094	5,000	(2,062)	11,032
Service Transformation Fund	6,135	3,750	(2,584)	7,301
Insurance Fund	11,121	3,876	(8,333)	6,664
Welfare Reform Reserve	4,533	285	(741)	4,077
Energy Fund	1,465	-	(358)	1,107
Technical Accounting Reserve	784	262	-	1,046
<b>Total Corporate Reserves</b>	<b>119,919</b>	<b>42,319</b>	<b>(47,422)</b>	<b>114,816</b>
<b>Earmarked Reserves Departmental</b>				
Financial Services Reserve	2,837	1,127	(617)	3,347
ICT Development Fund	2,156	900	(97)	2,959
Channel Shift Reserve	1,702	500	(554)	1,648
Delivery, Communications & Political Governance	138	1,776	(1,327)	587
Voluntary Sector Prospective Work	-	1,500	-	1,500
PC Replacement Fund	939	358	-	1,297
Housing	1,366	300	(487)	1,179
City Development (Excl Housing)	3,085	3,480	(5,473)	1,092
Election Fund	1,020	-	-	1,020
Children's Services	5,197	-	(4,070)	1,127
Health & Wellbeing Division	1,730	300	(1,294)	736
Adults Strategic Reserve (Budget 18/19)	492	331	(682)	141
Other Departmental Reserves	3,879	987	(727)	4,139
<b>Total Other Reserves</b>	<b>24,541</b>	<b>11,559</b>	<b>(15,328)</b>	<b>20,772</b>
<b>Total Earmarked Reserves</b>	<b>190,021</b>	<b>60,289</b>	<b>(78,635)</b>	<b>171,675</b>

## 5. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it.

This note also illustrates the Council's Capital Financing Requirement (CFR). The CFR represents the total underlying borrowing required to finance the Council's assets. There are two key points to note about this borrowing:

- Most borrowing used to finance capital expenditure was incurred prior to 2010, when the standard model in local government entailed borrowing funded by central government over the life of the loan. Since 2010, government has provided grant funding up front to support all government funded capital expenditure. Borrowing is now only undertaken to support schemes that deliver revenue savings sufficient to repay the debt
- New borrowing does not necessarily represent external loans taken out, but is generally financed by the Council's free cash flows. This minimises the cost of external borrowing to the Council

Where capital expenditure is not financed by grant or revenue, the expenditure results in an increase in the Capital Financing Requirement (CFR). Increases in the CFR result in higher levels of Minimum Revenue Provision (MRP) charged to the revenue budget in future years. The Council's policy for the calculation of MRP is set out in its annual budget setting report presented to Council.

	2016/17 £000	2017/18 £000
<b>Opening Capital Financing Requirement</b>	<b>586,366</b>	<b>576,915</b>
<b><u>Capital Investment</u></b>		
Property, Plant and Equipment	67,616	73,528
Intangible Assets	1,785	1,487
Heritage Assets	379	1,026
Revenue Expenditure Funded from Capital Under Statute	21,897	25,193
Capital Loans Expenditure	6,716	1,107
De Minimis Capital Spend	-	49
Sub-total	<b>98,393</b>	<b>102,390</b>
<b><u>Sources of Finance</u></b>		
Capital Receipts	(1,270)	(1,262)
Government Grants & Other Contributions	(66,037)	(73,452)
Sums set aside from revenue:		
Direct Revenue Contributions	(21,525)	(19,274)
(MRP/Loans Fund Principal)	(19,012)	(18,871)
Sub-total	<b>(107,844)</b>	<b>(112,859)</b>
<b>Closing Capital Financing Requirement</b>	<b>576,915</b>	<b>566,446</b>
Increase/(Decrease) in underlying need to borrowing	(9,963)	(10,331)
HRA CFR adjustment	(190)	(138)
Assets acquired under Finance Leases	561	-
Assets acquired under PFI contracts	141	-
<b>Increase/(Decrease) in Capital Financing Requirement</b>	<b>(9,451)</b>	<b>(10,469)</b>



## 6. Unusable Reserves

	31st March 2017 £000	31st March 2018 £000
Revaluation Reserve	(574,637)	(680,452)
Capital Adjustment Account	(1,238,918)	(1,138,975)
Financial Instruments Adjustment Account	(86)	-
Deferred Capital Receipts Reserve	(1,377)	(1,239)
Pensions Reserve	655,450	634,031
Collection Fund Adjustment Account	(1,466)	1,682
Accumulated Absences Account	6,662	6,090
<b>Total Unusable Reserves</b>	<b>(1,154,372)</b>	<b>(1,178,863)</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, heritage assets, assets held for sale and intangible assets. The balance is reduced when assets with accumulated gains are:

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

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

	2016/17 £000	2017/18 £000
<b>Balance at 1st April</b>	<b>(572,533)</b>	<b>(574,637)</b>
Upward revaluation of assets	(98,842)	(163,591)
Downward revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services	50,137	31,459
<b>(Surplus) or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	<b>(48,705)</b>	<b>(132,132)</b>
Difference between fair value depreciation and historical cost depreciation	9,560	9,777
Accumulated gains on assets sold or scrapped	37,041	16,540
<b>Balance at 31st March</b>	<b>(574,637)</b>	<b>(680,452)</b>

## 6. Unusable Reserves continued

### *Capital Adjustment Account*

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

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

	2016/17 £000	2017/18 £000
<b>Balance at 1st April</b>	<b>(1,121,704)</b>	<b>(1,238,918)</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation & impairment	(106,792)	104,520
Revaluation losses on Property, Plant and Equipment	54,583	27,719
Amortisation of intangible assets	452	542
Revenue expenditure funded from capital under statute	21,897	25,193
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	66,174	81,145
Transfer of Assets Held For Sale	917	-
	<b>(1,084,473)</b>	<b>(999,799)</b>
Adjusting amounts written out of the Revaluation Reserve	(46,601)	(26,317)
<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(1,131,074)</b>	<b>(1,026,116)</b>
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	(1,270)	(1,262)
Use of the Major Repairs Reserve to finance new capital expenditure	(8,075)	(11,673)
Capital Grants, Contributions & Donated Assets credited to the Income and Expenditure Statement that have been applied to capital financing	(66,037)	(73,452)
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(19,012)	(18,871)
Capital expenditure charged against the General Fund and HRA balances	(13,450)	(7,601)
<b>Balance at 31st March</b>	<b>(1,238,918)</b>	<b>(1,138,975)</b>

## 6. Unusable Reserves continued

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

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

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

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

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

	2016/17 £000	2017/18 £000
<b>Balance at 1st April</b>	<b>(667)</b>	<b>(86)</b>
Proportion of premia incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(204)	-
Proportion of discounts incurred in previous financial years to be credited to the General Fund Balance in accordance with statutory requirements	785	86
<b>Balance at 31st March</b>	<b>(86)</b>	<b>-</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	581	86

## 6. Unusable Reserves continued

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

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

	2016/17 £000	2017/18 £000
<b>Balance at 1st April</b>	<b>(1,409)</b>	<b>(1,377)</b>
Transfer of deferred sale proceeds to the DCCR	-	(2)
Transfer to the Capital Receipts Reserve upon receipt of cash	32	140
<b>Balance at 31st March</b>	<b>(1,377)</b>	<b>(1,239)</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, and changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible.

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

	2016/17 £000	2017/18 £000
<b>Balance at 1st April</b>	<b>530,775</b>	<b>655,450</b>
Remeasurement of the Net Defined Benefit Liability	107,863	(58,179)
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	59,046	80,356
Employer's pensions contributions and direct payments to pensioners payable in the year	(42,234)	(43,596)
<b>Balance at 31st March</b>	<b>655,450</b>	<b>634,031</b>

## **6. Unusable Reserves continued**

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

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

	2016/17 £000	2017/18 £000
<b>Balance at 1st April</b>	<b>1,661</b>	<b>(1,466)</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	(3,127)	3,148
<b>Balance at 31st March</b>	<b>(1,466)</b>	<b>1,682</b>

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

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

	2016/17 £000	2017/18 £000
<b>Balance at 1st April</b>	<b>5,962</b>	<b>6,662</b>
Settlement or cancellation of accrual made at the end of the preceding year	(5,962)	(6,662)
Amounts accrued at the end of the current year	6,662	6,090
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>700</b>	<b>(572)</b>
<b>Balance at 31st March</b>	<b>6,662</b>	<b>6,090</b>

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

The difference between the Accounting and funding basis for the Council's accounts is set out in the commentary on the Movement in Reserves Statement in Section 2.

This note provides a detailed reconciliation of the movements required to reflect the statutory amounts chargeable to the taxpayer for the year 2017/18. These adjustments reconcile the movements on all the unusable reserves in Note 6 to the Movement in Reserves Statement.

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Adjustment	2016/17						2017/18					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movemt in Unusable Reserves	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	£000	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>												
Reversal of items debited or credited to the Comprehensive Income and Expenditure Account:												
Charges for depreciation, impairment and amortisation of non-current assets	(79,547)	185,887	-	-	-	(106,340)	(77,975)	(27,087)	-	-	-	105,062
Revaluation losses on Property Plant and Equipment	(54,575)	(8)	-	-	-	54,583	(26,751)	(968)	-	-	-	27,719
Capital grants and contributions applied	65,723	23	-	-	-	(65,746)	72,403	23	-	-	-	(72,426)
Capital expenditure funded from revenue	2,213	-	-	-	-	(2,213)	2,133	-	-	-	-	(2,133)
Revenue expenditure funded from capital under statute	(21,897)	-	-	-	-	21,897	(25,193)	-	-	-	-	25,193
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	(47,291)	(19,800)	-	-	-	67,091	(62,364)	(18,781)	-	-	-	81,145
Income recognised in respect of donated assets	291	-	-	-	-	(291)	1,026	-	-	-	-	(1,026)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Account:												
Statutory provision for the financing of capital investment	12,620	111	-	-	-	(12,731)	11,590	187	-	-	-	(11,777)
Voluntary provision for the financing of capital expenditure	6,281	-	-	-	-	(6,281)	6,956	138	-	-	-	(7,094)
Capital expenditure charged against the General Fund and HRA balances	-	11,237	-	-	-	(11,237)	-	5,468	-	-	-	(5,468)
<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	15,151	15,205	(30,356)	-	-	-	16,365	16,392	(32,757)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	1,270	-	-	(1,270)	-	-	1,012	-	-	(1,012)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-	-	-	-	-	-	-	-	250	-	-	(250)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(2,150)	-	2,150	-	-	-	(1,703)	-	1,703	-	-	-

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Adjustment Continued	2016/17						2017/18					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movment in Unusable Reserves	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movment in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£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	(32)	-	-	-	-	32	(140)	-	-	-	-	140
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>												
Transfer of HRA depreciation costs to Major Repairs Reserve	-	8,075	-	(8,075)	-	-	-	10,473	-	(10,473)	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	8,075	-	(8,075)	-	-	-	11,673	-	(11,673)
<b>Adjustments primarily involving the Capital Grants Unapplied Reserve:</b>												
Capital grants recognised in the year and credited to the Capital Grants Unapplied Reserve	5,585	-	-	-	(5,585)	-	56,377	-	-	-	(56,377)	-
Application of grants to capital financing credited to the Capital Adjustment Account	(16,413)	-	-	-	16,413	-	(66,580)	-	-	-	66,580	-
<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	(423)	(158)	-	-	-	581	-	(86)	-	-	-	86
<b>Adjustments primarily involving the Pensions Reserve:</b>												
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(50,311)	(8,735)	-	-	-	59,046	(70,725)	(9,631)	-	-	-	80,356
Employer's pensions contributions and direct payments to pensioners payable in the year	35,986	6,248	-	-	-	(42,234)	38,371	5,225	-	-	-	(43,596)
<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	3,127	-	-	-	-	(3,127)	(3,148)	-	-	-	-	3,148
<b>Adjustment primarily involving the Accumulated Absences Account:</b>												
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(693)	(7)	-	-	-	700	593	(21)	-	-	-	(572)
<b>Total Adjustments</b>	<b>(126,355)</b>	<b>198,078</b>	<b>(26,936)</b>	<b>-</b>	<b>10,828</b>	<b>(55,615)</b>	<b>(128,763)</b>	<b>(18,668)</b>	<b>(29,792)</b>	<b>1,200</b>	<b>10,203</b>	<b>(165,820)</b>

## Notes Relating to People and Organisations Connected with the Council

The notes in this section provide information on the Council's key relationships with people and organisations, including:

- Details of organisations or people with which the Council is connected through its elected members and senior officers
- Details of other organisations in which the Council holds a stake
- Details of allowances paid to elected members of the Council
- Details of the remuneration of the Council's senior professional managers
- Details of amounts paid to employees in the year in respect of termination of employment
- Details of the Council's financial obligations under pension schemes

They will help users of the accounts understand how the Council relates to other key organisations in the community and ensures that the Council is transparent about the relationships it has with other organisations, businesses or people where there are overlapping interests.

They also provide users with transparency about the level and nature of amounts paid by the Council to those who are elected to lead it, who manage it, work for it or have left its employment in the year.

### **8. Related Parties**

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions in Part 1 below allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

The Council is also required to disclose interests it holds in companies and other entities. However, no material relationships of this nature existed during the 2017/18 financial year.

### **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 26 to the accounts.



## 8. Related Parties continued

### ***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 9. Remuneration of senior officers is detailed in Note 16.

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.

During 2017/18 the council received £13k in commercial rents from two businesses whose senior management included Councillors or close family members.

10 Members of the Council and one senior officer sit (either in a personal capacity or as representatives of the Council) on the governing bodies of 14 different voluntary organisations. The Council made a total of £270k in payments to two of the organisations, primarily in the form of grants. All grants are made with proper consideration of declaration of interest. The relevant members did not take part in any discussion or decision relating to the grants. In addition a total of £89k was received from four of the organisations, primarily relating to the costs of occupying the Council's premises.

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

## 9. Members' Allowances

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

	2016/17 £	2017/18 £
Basic Allowance Payments	562,840	566,091
Special Responsibility Payments	368,746	371,087
General Expense Payments	83,962	83,066
<b>Total</b>	<b>1,015,548</b>	<b>1,020,244</b>

## 10. Officers' Remuneration

This note comprises two parts. The first discloses the remuneration of the Council's most senior officers. The second part discloses the total number of 'higher paid' Council officers whose remuneration exceeded £50k during 2017/18, shown in bands and excluding those senior officers in the first part.

### Part 1 - Senior Employees' Remuneration

The table shows the amounts paid to the holders of senior posts in 2017/18 with comparative data from 2016/17 where applicable.

Senior employees are defined as certain statutory chief officer posts (including the Head of Paid Service), those earning over £150k per annum and those earning less than this sum but reporting directly to the head of paid service (Chief Operating Officer). There are eight such officers, in 2017/18, which represents no change from 2016/17.

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 (Head of Paid Service)	2017/18	130,048	-	28,132	-	158,180
	2016/17	128,760	-	26,613	-	155,373
Director Delivery, Communications & Political Governance	2017/18	92,110	-	20,909	-	113,019
	2016/17	92,568	-	20,081	-	112,649
Director of Finance	2017/18	92,110	-	19,321	-	111,431
	2016/17	92,524	-	18,680	-	111,204
City Barrister & Head of Standards (Note 1)	2017/18	74,683	-	16,953	-	91,636
	2016/17	71,481	-	15,511	-	86,992
Strategic Director - Children's Services (Note 2)	2017/18	110,177	-	25,010	-	135,187
	2016/17	120,173	-	26,078	-	146,251
Strategic Director - Adult Social Care & Health	2017/18	117,042	-	26,568	-	143,610
	2016/17	111,589	-	24,215	-	135,804
Strategic Director - City Development & Neighbourhoods (Note 3)	2017/18	116,529	-	26,452	-	142,981
	2016/17	42,466	-	9,215	-	51,681
Director of Public Health (Note 1)	2017/18	78,575	-	17,837	-	96,412
	2016/17	77,797	-	16,882	-	94,679

Notes:

- 1) The City Barrister and Director of Public Health work on a part time basis.
- 2) The Strategic Director of Children Services left the role in February 2018. The position was left vacant at 31<sup>st</sup> March 2018.
- 3) The Strategic Director of City Development & Neighbourhoods took up the role in November 2016.

## **Part 2 - Higher Paid Employees**

The number of other Council employees receiving more than £50,000 remuneration for the year is shown in the table below. In line with the relevant regulations, the table excludes the senior officers listed in the table above.

These figures include teaching, senior leadership and support staff within local authority schools. Employees in schools which become academies are only included if their remuneration during the period of the financial year prior to academy conversion (i.e. when the school was under the local authority) exceeded the £50k threshold. Further details of academies' higher paid employees are published by academies themselves or can be requested directly from academies under the Freedom of Information Act 2000.

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

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

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

Remuneration Band £	Number of Employees					
	Non-Schools		Schools		Total	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
50,000-54,999	47	46	71	67	118	113
55,000-59,999	23	32	43	42	66	74
60,000-64,999	31	21	22	24	53	45
65,000-69,999	9	9	25	20	34	29
70,000-74,999	4	5	14	15	18	20
75,000-79,999	3	-	13	7	16	7
80,000-84,999	3	2	4	4	7	6
85,000-89,999	6	6	5	2	11	8
90,000-94,999	-	4	1	1	1	5
95,000-99,999	-	-	1	3	1	3
100,000-104,999	-	-	1	-	1	-
105,000-109,999	-	-	2	1	2	1
110,000-114,999	-	-	-	-	-	-
115,000-119,999	-	-	-	-	-	-
120,000-124,999	-	-	1	1	1	1
125,000-129,999	-	-	-	-	-	-
130,000-134,999	-	-	-	-	-	-
<b>Total</b>	<b>126</b>	<b>125</b>	<b>203</b>	<b>187</b>	<b>329</b>	<b>312</b>

## 11. Termination Benefits

The Council terminated the contracts of a number of employees in 2017/18 incurring liabilities of £4,502k (£3,975k in 2016/17). Of this £2,370k (£2,361k in 2016/17) was for redundancy and other departure costs, and £1,859k (£1,614k in 2016/17) 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 2017/18 the Council approved 71 compulsory redundancies (119 in 2016/17).

Band	Total number of exit packages by cost band	Total cost of exit packages 2016/17	Total number of exit packages by cost band	Total cost of exit packages 2017/18
£	2016/17	£	2017/18	£
0 - 20,000	235	1,925,885	233	1,695,684
20,001 - 40,000	30	860,590	38	1,011,787
40,001 - 60,000	11	575,041	12	579,540
60,001 - 80,000	4	248,597	12	798,653
80,001 - 100,000	3	262,323	3	282,514
100,001 - 150,000	1	102,301	1	133,774
<b>Total</b>	<b>284</b>	<b>3,974,737</b>	<b>299</b>	<b>4,501,952</b>

## 12. Pension Schemes Accounted for as Defined Contribution Schemes

### *Teachers' Pensions*

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

The Scheme is a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the 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 2017/18, the Council paid £14.6m to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. The figures for 2016/17 were £15.5 m and 16.48%.

## **12. Pension Schemes Accounted for as Defined Contribution Schemes** **continued**

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 13.

### ***Public Health***

Certain public health employees remain members of the NHS pension scheme. The scheme provides these staff with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is an unfunded defined benefit scheme. 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 2017/18, the Council paid £0.1m to the NHS Pension Scheme in respect of former NHS staff retirement benefits representing 13.8% of pensionable pay.

## **13. Defined Benefit Pension Schemes**

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

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

The Council participates in three post-employment pension schemes:

- Teachers' Pensions Scheme – see Note 12 for further information
- NHS Pension Scheme – see Note 12 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.

### 13. Defined Benefit Pension Schemes continued

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

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

	2016/17 £000	2017/18 £000
<b>Comprehensive Income and Expenditure Statement</b>		
<u>Cost of Services</u>		
Current service cost	45,239	66,270
Past service cost	621	1,380
Settlements and curtailments	(5,321)	(4,552)
<b>Total Service Cost</b>	<b>40,539</b>	<b>63,098</b>
<b>Financing and Investment Income and Expenditure</b>		
Expected return on scheme assets	(34,686)	(31,580)
Interest cost	53,193	48,838
<b>Net Interest Cost</b>	<b>18,507</b>	<b>17,258</b>
<b>Total Post-employment Benefit charged to the (Surplus) or Deficit on the Provision of Services</b>	<b>59,046</b>	<b>80,356</b>
<b>Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement</b>		
Return on plan assets excluding amounts included in net interest	(181,422)	(23,042)
Actuarial (gains)/losses arising from changes in demographic assumptions	(17,395)	-
Actuarial (gains)/losses arising from changes in financial assumptions	352,619	(34,581)
Other Experience adjustments	(45,939)	(556)
<b>Total remeasurements recognised in the Comprehensive Income and Expenditure Statement</b>	<b>107,863</b>	<b>(58,179)</b>
<b>Total post-employment Benefit charged to the Comprehensive Income and Expenditure statement</b>	<b>166,909</b>	<b>22,177</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits	59,046	80,356
Actual amount charged against the General Fund Balance for pensions in the year (Employers contributions paid to the scheme)	(42,234)	(43,596)
<b>Total Movement in Reserves</b>	<b>16,812</b>	<b>36,760</b>

### 13. Defined Benefit Pension Schemes continued

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

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

	2016/17 £000	2017/18 £000
<b>Balance at 1st April</b>	<b>1,520,345</b>	<b>1,867,006</b>
Current service cost	45,239	66,270
Past service costs (including curtailments)	621	1,380
Effect of settlements	(11,205)	(9,343)
Interest cost	53,193	48,838
Contributions by scheme participants	11,126	10,700
Benefits paid	(41,598)	(40,059)
Remeasurements arising from changes in assumptions	289,285	(35,137)
<b>Balance at 31st March</b>	<b>1,867,006</b>	<b>1,909,655</b>

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

	2016/17 £000	2017/18 £000
<b>Balance at 1st April</b>	<b>989,570</b>	<b>1,211,556</b>
Interest income	34,686	31,580
Effect of settlements	(5,884)	(4,791)
Contributions by scheme participants	11,126	10,700
Employer contributions	42,234	43,596
Benefits paid	(41,598)	(40,059)
Return on plan assets excluding amounts included in net interest	181,422	23,042
<b>Balance at 31st March</b>	<b>1,211,556</b>	<b>1,275,624</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.

### 13. Defined Benefit Pension Schemes continued

#### ***Scheme History***

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Present value of funded obligations	(1,369,228)	(1,676,690)	(1,469,327)	(1,812,582)	(1,857,800)
Present value of unfunded obligations	(53,748)	(56,757)	(51,018)	(54,424)	(51,855)
Fair value of assets in the scheme	826,184	969,019	989,570	1,211,556	1,275,624
<b>Surplus/(deficit) in the scheme</b>	<b>(596,792)</b>	<b>(764,428)</b>	<b>(530,775)</b>	<b>(655,450)</b>	<b>(634,031)</b>

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

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £1,910m has a substantial impact on the net worth of the Council as recorded in the balance sheet, resulting in a negative overall balance of £634.0m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary. Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31<sup>st</sup> March 2019 is £39.9m. The maturity profile is as follows:

	Liability Split	Weighted Average Duration
Active members	52.6%	23.0
Deferred members	20.2%	22.9
Pensioner members	27.2%	11.7
<b>Total</b>	<b>100.0%</b>	<b>18.9</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 31<sup>st</sup> March 2016.



### 13. Defined Benefit Pension Schemes continued

The main assumptions used by the actuary have been:

Local Government Pension Scheme	2016/17	2017/18
<b>Mortality assumptions:</b>		
Longevity at 65 for current pensioners (years):		
Men	22.1	22.1
Women	24.3	24.3
Longevity at 65 for future pensioners (years):		
Men	23.8	23.8
Women	26.2	26.2
<b>Benefit entitlement assumptions</b>		
Rate of increase in salaries	3.4%	3.4%
Rate of increase in pensions	2.4%	2.4%
Rate for discounting scheme liabilities	2.6%	2.7%
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 categories in the table below, by proportion of the total assets held:

	2016/17		2017/18	
	Bid Values £000	Percentage of Total Assets	Bid Values £000	Percentage of Total Assets
<b>Equity</b>				
Other	31,300	3%	30,952	2%
<b>Debt Securities</b>				
UK Government	104,337	9%	106,463	8%
Other	13,282	1%	11,645	1%
<b>Private Equity</b>				
All	45,748	4%	45,361	4%
<b>Real Estate</b>				
UK Property	97,351	8%	112,057	9%
<b>Investment Fund and Unit Trusts</b>				
Equities	580,277	48%	600,925	47%
Bonds	108,640	9%	146,432	11%
Hedge Funds	40,675	3%	44,470	3%
Commodities	28,545	2%	29,885	2%
Infrastructure	54,232	4%	60,338	5%
Other	30,350	3%	37,745	3%
<b>Derivatives</b>				
Foreign Exchange	(559)	0%	(3,716)	0%
<b>Cash and Cash Equivalents</b>				
All	77,378	6%	53,067	4%
<b>Total</b>	<b>1,211,556</b>	<b>100%</b>	<b>1,275,624</b>	<b>100%</b>

## Notes Relating to Uncertainties, Judgements & Changes Reflected in the Statement of Accounts

The notes in this section provide information on areas of the Council's accounts where judgement and estimation have been used to prepare the financial statements, or where uncertainty about future events has impacted on the financial position presented.

The notes cover:

- The most significant judgements and estimations that underpin the accounts presented, with indications about the potential impact of revisions to these judgements that may result from future events
- Details of the amounts the Council has set aside to meet future liabilities resulting from past events, and details of known potential liabilities that may require resources to be set aside in future
- Details of major changes to the nature of the Council's operations during the year and details of the impact of any changes in accounting policies in the year (though there are no changes to report in 2017/18)
- Details of any events occurring after the financial year end that are pertinent to the reader's understanding of the financial position

They will assist readers in gaining greater understanding of the position presented in the Statement of Accounts and potential areas of change if assumptions are revised

### 14. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Section 6 of this Statement of Accounts, the Council has had to make certain judgements about complex transactions and/or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

#### **Accounts prepared on a going concern basis**

These accounts have been prepared on a going concern basis. The concept of a going concern assumes that an organisation, its functions and services will continue in operational existence for the foreseeable future. However, there is a high degree of uncertainty about future levels of funding for local government and the future national economic outlook. The Council's management has used its judgement and determined that its financial strategy is robust and that this uncertainty is not yet sufficient to affect the assumptions underpinning the strategy and that the Council will continue as a going concern.

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

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

The items in the Council's Balance Sheet at 31<sup>st</sup> March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant & Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.  It is estimated that the annual depreciation charge for buildings would increase by approximately £1.8m for every year that useful lives had to be reduced.
Fair Value Measurements	Most financial and property assets are now held at Fair Value (see Accounting Policies & Notes 31 & 37 for more information). When there is no quoted market value for an asset, the Council applies other valuation methods in accordance with the Code of Practice and the underlying IFRS 13 standard, but these may incorporate elements of judgement around risks and the basis of assumptions.	It is not possible to quantify the level of variance that may arise if assumptions used differ from actual asset values. The Council is confident, however, that the risk of any differences impacting on the level of usable reserves or the overall financial strategy is low.
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 on the net pension liability of changes in individual assumptions can be measured. The actuaries have advised that a 0.5% decrease in the Real Discount Rate would mean a 10% increase to the employers liability amounting to approximately £200m. A 0.5% increase in the Pension Increase Rate would mean an 9% increase to the employers' liability amounting to £166m. A 0.5% increase in the projected rate of salary increased would lead to an increased liability of 2% or £31m.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
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	The Council 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 and any other known information. Different averages have been calculated for the different types of appeal and property types. As at 31 March 2018 545 appeals were outstanding relating to 379 properties.	The provision made by the Council stands at £3.9m at 31st March 2018. This calculation is based on a range of sources including professional advice. 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. It is the Council's judgement that the impact of any error would not have a material impact on these financial statements.

## 16. Provisions

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

	Insurance	Housing Benefits	Equal Pay	s117 Mental Health Act	Housing	Business Rate Appeals	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1st April 2016</b>	<b>5,272</b>	<b>3,935</b>	<b>208</b>	<b>39</b>	<b>1,257</b>	<b>3,930</b>	<b>14,641</b>
Net Movement (additions less amounts used)	113	(925)	(84)	-	(57)	(1,429)	(2,382)
<b>Balance at 1st April 2017</b>	<b>5,385</b>	<b>3,010</b>	<b>124</b>	<b>39</b>	<b>1,200</b>	<b>2,501</b>	<b>12,259</b>
2017/18 Provisions/(Reductions)	719	-	-	-	27	4,896	5,642
Amounts used in 2017/18	(1,185)	(415)	-	-	(500)	(3,479)	(5,579)
<b>Balance at 31st March 2018</b>	<b>4,919</b>	<b>2,595</b>	<b>124</b>	<b>39</b>	<b>727</b>	<b>3,918</b>	<b>12,322</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 £4.9m is held as a provision, being the amount that the Council estimates will be required to meet claims already received. A further sum of £9.1m is held as

## **16. Provisions continued**

an earmarked reserve (as per Note 4), to meet the costs of liabilities incurred for which claims have not been received. Periodically, the fund value is reviewed by actuaries.

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

The Council pays and administers Housing Benefit within Leicester and receives subsidy from the Government to reimburse it for amounts paid out. The amount of subsidy received is based on a claim completed annually.

Claims are subject to audit and often give rise to the discovery of overpayments to some benefits recipients. This can lead to the value of the claim being reduced, based on an extrapolation. A provision is maintained based on the total value of the subsidy claims outstanding. The provision currently totals £2.6m.

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

### ***Housing Provisions***

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

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

A number of appeals against rateable value assessments have not been determined by the Valuation Office Agency. If successful, there will be a retrospective reduction in income. Therefore a provision has been charged to the collection fund calculated at a total of £8.0m (Council share of £3.9m).

## **17. 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.

### **17. Contingent Liabilities continued**

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 Council as accountable body for the Local Enterprise Partnership.

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.

### **18. Contingent Assets**

The Court of Justice of the European Union has ruled in favour of another authority in relation to over declared VAT on the provision of sports & leisure services. Whilst the European Court ruling provides some certainty that the VAT can be reclaimed, there remains uncertainty about the amount. Therefore, the Council has treated the potential refund as a contingent asset in the 2017/18 accounts.

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

There were no significant events between the balance sheet date and the approval of these financial statements which would require disclosure or adjustment of the statements.

## Notes Relating to the Council's Income and Expenditure

The notes in this section provide information on the Council's revenue income and expenditure in the year 2017/18 that form the basis of the Comprehensive Income and Expenditure Statement (CIES) and Expenditure and Funding Analysis (EFA).

The notes cover:

- A detailed reconciliation between Expenditure and Funding Analysis and the amounts reported in the CIES
- Nature of the income and expenditure reported in the lines within the CIES that form part of the surplus or deficit on the provision of services
- Details of the grant funding provided to the Council during the year
- Details of pooled budgets held with partner organisations
- Details of the Council's trading operations and services provided to third parties as an agent
- Other information on specific items of revenue income and expenditure in the year

They will assist readers in gaining greater understanding of the position presented in the Statement of Accounts and the Council's ongoing operations.

### 20. Note to Expenditure and Funding Analysis

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

**20. Note to Expenditure and Funding Analysis continued**

2017/18	Net Expenditure on the Comprehensive Income & Expenditure Statement £000	Adjustments Between Accounting & Funding Basis				Net Expenditure Charged to the HRA & General Fund Balance £000
		Adjustments for Capital Purposes £000	Adjustments for Defined Benefit Pensions £000	Other Adjustments £000	Total £000	
City Development & Neighbourhoods	140,678	(93,630)	(4,794)	(232)	(98,656)	42,022
Housing Revenue Account (HRA)	(2,902)	(14,155)	(2,706)	(21)	(16,882)	(19,784)
Adult Social Care	93,429	(1,500)	(2,484)	(121)	(4,105)	89,324
Health Improvement & Wellbeing	(6,029)	-	(603)	(39)	(642)	(6,671)
Education & Children's Services	101,524	(29,592)	(9,167)	1,072	(37,687)	63,837
Corporate Resources & Support	34,303	346	(3,234)	(87)	(2,975)	31,328
Housing Benefits	(528)	-	-	-	-	(528)
Corporate Items	(7,917)	30,522	3,486	-	34,008	26,091
Capital Financing	(486)	-	-	-	-	(486)
<b>Cost of Services</b>	<b>352,072</b>	<b>(108,009)</b>	<b>(19,502)</b>	<b>572</b>	<b>(126,939)</b>	<b>225,133</b>
Other Operating Expenditure	51,622	-	-	-	-	51,622
Financing and Investment Income and Expenditure	36,441	-	(17,258)	(86)	(17,344)	19,097
Taxation and Non-Specific Grant Income	(296,628)	-	-	(3,148)	(3,148)	(299,776)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>143,507</b>	<b>(108,009)</b>	<b>(36,760)</b>	<b>(2,662)</b>	<b>(147,431)</b>	<b>(3,924)</b>



## 20. Note to Expenditure and Funding Analysis continued

2016/17	Net Expenditure on the Comprehensive Income & Expenditure Statement £000	Adjustments Between Accounting & Funding Basis				Net Expenditure Charged to the HRA & General Fund Balance £000
		Adjustments for Capital Purposes £000	Adjustments for Defined Benefit Pensions £000	Other Adjustments £000	Total £000	
City Development & Neighbourhoods	146,707	(103,068)	(801)	(74)	(103,943)	42,764
Housing Revenue Account (HRA)	(7,219)	(6,204)	(651)	(6)	(6,861)	(14,080)
Adult Social Care	111,363	(6,429)	(599)	29	(6,999)	104,364
Health Improvement & Wellbeing	(4,718)	-	(125)	(71)	(196)	(4,914)
Education & Children's Services	111,264	(39,523)	(500)	(646)	(40,669)	70,595
Corporate Resources & Support	31,200	7,287	(643)	(14)	6,630	37,830
Housing Benefits	(962)	-	-	-	-	(962)
Corporate Items	(10,958)	32,205	5,021	82	37,308	26,350
Capital Financing	(511)	-	-	-	-	(511)
Housing Revenue Account - Reversal of Prior Year Impairments	(213,329)	213,329	-	-	213,329	
<b>Cost of Services</b>	<b>162,837</b>	<b>97,597</b>	<b>1,702</b>	<b>(700)</b>	<b>98,599</b>	<b>261,436</b>
Other Operating Expenditure	41,849	(40,086)	(7)	-	(40,093)	1,756
Financing and Investment Income and Expenditure	38,322	(9,010)	(18,507)	(581)	(28,098)	10,224
					-	-
Taxation and Non-Specific Grant Income	(302,182)	38,188	-	3,127	41,315	(260,867)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(59,174)</b>	<b>86,689</b>	<b>(16,812)</b>	<b>1,846</b>	<b>71,723</b>	<b>12,549</b>

## **20. Note to Expenditure and Funding Analysis continued**

### **Adjustments for Capital Purposes**

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

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

### **Net Change for Pensions Adjustments**

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

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

### **Other Adjustments**

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

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

## 20. Note to Expenditure and Funding Analysis continued

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

## 21. Expenditure and Income Analysed by Nature

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

	2016/17 £000	2017/18 £000
<b>Expenditure</b>		
Employee Benefit Expenses	422,040	404,350
Other Services expenses	805,293	794,837
Depreciation, amortisation, impairment	(106,340)	105,062
Interest Payments	39,684	38,212
Precepts & Levies	79	81
Payments to Housing Capital Receipts pool	2,151	1,703
Gain on the Disposal of Assets	35,835	48,792
<b>Total Expenditure</b>	<b>1,198,742</b>	<b>1,393,037</b>
<b>Income</b>		
Fees , charges and other service income	(397,305)	(396,985)
Interest & Investment Income	(1,244)	(1,623)
Income from Council Tax, non domestic rates	(190,969)	(194,136)
Government grants & contributions	(668,398)	(656,786)
<b>Total Income</b>	<b>(1,257,916)</b>	<b>(1,249,530)</b>
<b>Surplus or Deficit on Provision of Services</b>	<b>(59,174)</b>	<b>143,507</b>

## 22. Other Operating Expenditure

	2016/17 £000	2017/18 £000
Levies	79	81
Payments to the government Housing Capital Receipts Pool	2,151	1,703
Total (gains)/losses on the disposal of non-current assets	35,835	48,792
Costs of sale – assets held for sale	917	-
Other operating income and expenditure	2,867	1,046
<b>Total</b>	<b>41,849</b>	<b>51,622</b>

## 23. Financing and Investment Income and Expenditure

	2016/17 £000	2017/18 £000
Interest payable and similar charges	21,177	20,954
Pensions interest cost and expected return on pensions assets	18,507	17,258
Interest receivable and similar income	(1,244)	(1,623)
(Surplus)/deficit on trading operations	(118)	(148)
<b>Total</b>	<b>38,322</b>	<b>36,441</b>

## 24. Taxation and Non-Specific Grant Income

	2016/17 £000	2017/18 £000
Council Tax income	(94,966)	(101,382)
Non domestic rates	(96,003)	(92,754)
Non-ringfenced government grants	(75,399)	(63,654)
Capital grants and contributions	(35,523)	(37,812)
Donated Assets	(291)	(1,026)
<b>Total</b>	<b>(302,182)</b>	<b>(296,628)</b>

## 25. Material Items of Income and Expense

The 2016/17 revaluation of the Council's housing stock saw a material increase in value, caused mainly by the social housing adjustment factor for the East Midlands being increased from 34% to 42% and a general upward increase in market values across the housing sector. This resulted in the £213.3m balance of prior year impairments being reversed in full in 2016/17.

There were no material items of Income or Expense in 2017/18 considered extraordinary.

## 26. Grant Income

The Council received the following revenue and capital grants in 2017/18.

These grants are analysed between those credited to the Comprehensive Income and Expenditure Statement and those held as receipts in advance, in line with the Council's accounting policies.

### *Capital grants recognised in the year*

	2016/17 £000	2017/18 £000
<b>Credited to Services (All REFCUS related)</b>		
Local Growth Fund	15,706	15,108
DFE Basic Need Grant	419	6,147
Disabled Facilities Grant	1,001	1,410
Devolved Formula Capital Grant	1,284	1,281
Collaborate Business Grants	-	223
Heritage Lottery Fund	174	160
DfCM&S Broadband Delivery UK Funding	326	-
DFT Maintenance Grant	292	-
Lawn Tennis Association Contribution	131	-
Others	33	56
<b>Total Credited to Services</b>	<b>19,366</b>	<b>24,385</b>

	2016/17 £000	2017/18 £000
<b>Credited to Taxation &amp; Non-Specific Grant Income</b>		
DFE Basic Need Grant	6,513	15,839
Local Growth Fund	14,892	11,897
DFE Capital Maintenance Grant	3,583	3,471
DFT Integrated Transport Grant	2,556	2,556
DFT Maintenance Grant	2,395	2,323
Other DFT Grants	-	1,280
British Cycling Grant	-	450
Public Health England Grants	-	268
IBM Contributions	2,179	(343)
Other	3,405	71
<b>Total Credited to Taxation &amp; Non-Specific Grant Income</b>	<b>35,523</b>	<b>37,812</b>

## 26. Grant Income continued

### *Capital grants received in advance*

The Council has received a number of capital grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that have not yet been met. The balances at the year-end are as follows:

	2016/17 £000	2017/18 £000
<b>Capital Grants Receipts in Advance</b>		
DFE Basic Need Grant	5,576	27,251
S106 Contributions	3,206	4,374
Devolved Formula Capital Grant	3,242	3,963
DFT Transport Grants	-	460
DFT Breathe Grants	-	100
Public Health Grants	268	-
DFT Bus Pinch Point Grant	184	-
Others	(25)	14
<b>Total Capital Grants Receipts in Advance</b>	<b>12,451</b>	<b>36,162</b>
Capital Receipts not Recognised	554	639
<b>Total Received in Advance</b>	<b>13,005</b>	<b>36,801</b>

### *Revenue grants recognised in the year*

	2016/17 £000	2017/18 £000
<b>Credited to Taxation &amp; Non-Specific Grant Income</b>		
Revenue Support Grant	62,398	48,144
Section 31 Grants	3,636	5,933
Local Services Support Grant	-	1,581
New Homes Bonus Scheme	9,365	7,335
Other	-	662
<b>Total Credited to Taxation &amp; Non-Specific Grant Income</b>	<b>75,399</b>	<b>63,655</b>
<b>Credited to Services</b>		
<b>Children's and Education Services</b>		
Pupil Premium	17,224	14,778
Dedicated Schools Grant (see note 27)	252,614	244,746
Other Education	32,973	29,813
<b>Adults and Housing</b>		
Other Adult Social Care	848	473
Improved Better Care Fund	-	8,954
<b>Public Health</b>		
Public Health Grant	28,214	27,519
Other Public Health	465	93
<b>City Development, Neighbourhoods &amp; Housing</b>		
Waste PFI	2,046	2,074
Other City Development and Neighbourhoods	2,240	5,489
<b>Corporate and Resources</b>		
Housing Benefit Subsidies	127,105	120,563
Housing Benefit & Council Tax benefit Admin Grant	1,709	1,568
Community Care Grant	694	581
Elections	967	698
Waste PFI	545	517
Other Corporate and Resources	1,893	1,689
<b>Total Credited to Services</b>	<b>469,537</b>	<b>459,555</b>
<b>Total Recognised in Year</b>	<b>544,936</b>	<b>523,210</b>

## 26. Grant Income continued

### *Revenue grants received in advance*

The Council has received a number of revenue grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that have not yet been met. The balances at the year-end are as follows:

	2016/17 £000	2017/18 £000
<b>Children's and Education Services</b>		
Other Education	6,281	5,054
<b>Adult Social Care</b>		
Social Care Reform	518	518
Other Adult Social Care	3,109	4,981
<b>City Development, Neighbourhoods &amp; Housing</b>		
City Development and Neighbourhoods	1,481	970
<b>Corporate and Resources</b>		
Other Resources	74	-
<b>Public Health</b>		
Other Public Health	12	155
<b>Total Receipts in Advance</b>	<b>11,475</b>	<b>11,678</b>

## 27. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools' Budget, as defined in the School Finance and Early Years (England) Regulations 2017. The Schools' Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools' Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2017/18 are as follows:

2017/18	Central Expenditure £000	Individual Schools Budget £000	Total £000
<b>Final DSG for 2017/18 before Academy recoupment</b>			<b>301,992</b>
Academy figure recouped for 2017/18	-	-	(57,246)
<b>Total DSG after Academy recoupment for 2017/18</b>			<b>244,746</b>
Brought forward from 2016/17	-	-	14,205
<b>Agreed initial budgeted distribution in 2017/18</b>	<b>62,697</b>	<b>196,253</b>	<b>258,950</b>
In year adjustments	(177)	-	(177)
<b>Final budgeted distribution for 2017/18</b>	<b>62,520</b>	<b>196,253</b>	<b>258,773</b>
Actual central expenditure for the year	(50,617)	-	(50,617)
Actual ISB deployed to schools	-	(196,253)	(196,253)
<b>Carry forward to 2018/19</b>	<b>11,903</b>	<b>-</b>	<b>11,903</b>

## 27. Dedicated Schools Grant continued

2016/17 comparative information	Central Expenditure £000	Individual Schools Budget £000	Total £000
<b>Final DSG for 2016/17 before Academy recoupment</b>			<b>292,210</b>
Academy figure recouped for 2016/17	-	-	(42,096)
<b>Total DSG after Academy recoupment for 2016/17</b>			<b>250,114</b>
Brought forward from 2015/16	-	-	16,705
<b>Final budgeted distribution for 2016/17</b>	<b>62,514</b>	<b>204,305</b>	<b>266,819</b>
Actual central expenditure for the year	(48,309)	-	(48,309)
Actual ISB deployed to schools	-	(204,305)	(204,305)
<b>Carry forward to 2017/18</b>	<b>14,205</b>	<b>-</b>	<b>14,205</b>

## 28. 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 Council contributed £0.68m (Adult Social Care contribution of £0.63m and Education contribution of £0.05m) to the pool during 2017/18 (£0.85m in 2016/17 of which Adult Social Care contributed £0.77m and Education contributed £0.08m). This expenditure is also included in the Adult Social Care line and the Education line of the Comprehensive Income and Expenditure Statement.

	2016/17 £000	2017/18 £000
<b>Funding provided to the pooled budget:</b>		
Leicester City Council	850	679
Leicestershire County Council	1,196	1,200
Rutland County Council	86	78
Leicester City CCG	1,268	912
East Leicestershire and Rutland CCG	1,188	876
West Leicestershire CCG	1,110	980
<b>Total Funding provided to the pooled budget</b>	<b>5,698</b>	<b>4,725</b>
<b>Total Expenditure met from the pooled budget</b>	<b>5,698</b>	<b>4,725</b>



## 28. Pooled Budgets Continued

### ***Better Care Fund***

This is an arrangement between Leicester City Council and the NHS Leicester City Clinical Commissioning Group (LCCCG) to meet the aims and benefits prescribed in the section 75 agreement by delivering a robust and more integrated service between health and social care.

The Better Care Fund (BCF) has been established by the Government to provide funds to local areas to support the integration of health and social care. The grant is to be used for the purposes of meeting adult social care needs; reducing pressures on the NHS including supporting more people to be discharged from hospital when they are ready; and ensuring that the local social care provider market is supported. It is a requirement of the BCF that the LCCCG and the LCC establish a pooled fund/budget for this purpose. The Council acts as the host partner

Details of the income and expenditure in the pool are provided in the table below:

	2016/17 £000	2017/18 £000
<b><u>Income</u></b>		
Revenue	22,714	22,253
Capital	1,001	2,035
<b>Total Income</b>	<b>23,715</b>	<b>24,288</b>
<b><u>Expenditure</u></b>		
<b><u>Revenue</u></b>		
Actual Spend incurred by LCC managed schemes	14,437	15,009
Actual Spend incurred by LCCCG & LPT (Leicestershire Partnership Trust)	5,059	4,904
Social Care Grant	853	-
<b>Total Revenue Expenditure</b>	<b>20,349</b>	<b>19,913</b>
<b><u>Capital</u></b>		
DFG allocated to Housing Services capital programme	1,001	1,182
Social Care Grant allocated to Adult Social Care capital programme	-	853
<b>Total Capital Expenditure</b>	<b>1,001</b>	<b>2,035</b>
<b>Total Expenditure</b>	<b>21,350</b>	<b>21,948</b>
<b><u>Net outturn over/(under) spend:</u></b>		
Revenue	(2,365)	(2,340)

## 29. Trading Operations

The net surpluses and deficits of the 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 Council manages three 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.

	2016/17			2017/18		
	Turnover	Expenditure	(Surplus)/ Deficit	Turnover	Expenditure	(Surplus)/ Deficit
	£000	£000	£000	£000	£000	£000
City Catering	(6,634)	6,634	-	(6,614)	6,587	(27)
City Highways	(8,927)	8,921	(6)	(8,002)	7,993	(9)
Passenger Transport	(354)	242	(112)	(229)	117	(112)
<b>Total</b>	<b>(15,915)</b>	<b>15,797</b>	<b>(118)</b>	<b>(14,845)</b>	<b>14,697</b>	<b>(148)</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 undertakes 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.

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

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

### 30. 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:

	2016/17 £000	2017/18 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	147	147
Fees payable for the certification of grant claims and returns for the	53	59
Fees payable in respect of other services provided during the year	11	11
<b>Total</b>	<b>211</b>	<b>217</b>

The fee included in the table above is anticipated to increase, as a consequence of the additional requirements under the EU Audit legislation and the additional testing in relation to a new payroll system.

### Notes Relating to the Council's Property and Other Non-Financial Assets

The notes in this section provide information on the Council's property and other non-financial assets by detailing:

- Changes in the value of Property, Plant & Equipment assets in the year, whether due to acquisition, disposal, impairment or revaluation
- Information on the value and nature of other asset classes including intangible assets (such as software licenses), heritage assets (items of civic interest held on behalf of the city) and assets acquired or disposed of under lease arrangements
- Information on assets the Council recognises as provided under Private Finance Initiative (PFI) schemes, including the Building Schools for the Future scheme

They will assist readers in gaining greater understanding of the assets used to deliver the Council's services and how the Council's asset base has changed in the year.

### 31. Property, Plant and Equipment

The first table in this note illustrates the change in the value of the Council's property, plant and equipment assets during 2017/18. The note subsequently provides additional detail on the basis for valuations of these assets and future capital expenditure already committed.

Movements on Balances in 2017/18	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	Service Concession Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>									
At 1st April 2017	849,760	1,091,202	88,587	270,670	2,857	90,236	188	2,393,500	119,445
Additions	17,373	23,234	857	15,363	1,070	14,181	1,450	73,528	2,001
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	77,501	19,589	4,341	(23)	890	(1,038)	-	101,259	4,690
Revaluation Increases/(Decreases) recognised in the Surplus/Deficit on the Provision of Services	(16,730)	(40,491)	(5,276)	(11,901)	(989)	(21,765)	-	(97,152)	(2,000)
De-recognition – disposals	(18,781)	(49,860)	-	-	(64)	(4,185)	-	(72,890)	-
Assets reclassified (to)/from Held for Sale	-	1617	-	-	-	972	-	2,589	-
Asset reclassified (other)	1,195	(1,195)	-	-	-	0	-	0	-
<b>As at 31st March 2018</b>	<b>910,318</b>	<b>1,044,094</b>	<b>88,509</b>	<b>274,109</b>	<b>3,764</b>	<b>78,401</b>	<b>1,638</b>	<b>2,400,834</b>	<b>124,136</b>
<b>Accumulated Depreciation &amp; Impairment</b>									
At 1st April 2017	-	(29,925)	(54,508)	(55,582)	(6)	(21)	-	(140,042)	(11,124)
Depreciation Charge	(9,259)	(21,121)	(6,462)	(6,784)	-	(5)	-	(43,631)	(4,704)
Depreciation written out to the Revaluation Reserve	9,259	17,302	3,001	10	(1)	3	-	29,574	1,887
Depreciation written out to the Surplus/Deficit on the provision of services	117	3,793	5,070	21	-	-	-	9,001	-
De-recognition – disposals	(117)	3,364	-	-	-	-	-	3,247	-
Assets reclassified to/(from) Held for Sale	-	-	-	-	-	-	-	-	-
<b>As at 31st March 2018</b>	<b>-</b>	<b>(26,587)</b>	<b>(52,899)</b>	<b>(62,335)</b>	<b>(7)</b>	<b>(23)</b>	<b>-</b>	<b>(141,851)</b>	<b>(13,941)</b>
<b>Net Book Value as at 31st March 2018</b>	<b>910,318</b>	<b>1,017,507</b>	<b>35,610</b>	<b>211,774</b>	<b>3,757</b>	<b>78,378</b>	<b>1,638</b>	<b>2,258,983</b>	<b>110,195</b>
As at 1st April 2017	849,760	1,061,277	34,079	215,088	2,851	90,215	188	2,253,458	108,321

### 31. Property, Plant and Equipment continued

2016/17 Comparative Movements	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	Service Concession Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>									
At 1st April 2016	661,328	1,141,843	82,836	268,278	3,275	95,306	23,370	2,276,236	114,198
Additions	19,313	21,092	1,793	15,746	2,382	6,760	188	67,274	579
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	2,000	28,575	3,195	-	97	(5,736)	-	28,131	5,040
Revaluation Increases/(Decreases) recognised in the Surplus/Deficit on the Provision of Services	186,919	(78,913)	(174)	(12,179)	(2,897)	(2,318)	-	90,438	(372)
De-recognition – disposals	(19,800)	(42,995)	-	-	-	-	-	(62,795)	-
Assets reclassified (to)/from Held for Sale	-	(2,661)	-	-	-	(2,951)	-	(5,612)	-
Assets reclassified to Intangible Assets	-	-	-	-	-	-	(172)	(172)	-
Asset reclassified (other)	-	24,261	937	(1,175)	-	(825)	(23,198)	-	-
<b>As at 31st March 2017</b>	<b>849,760</b>	<b>1,091,202</b>	<b>88,587</b>	<b>270,670</b>	<b>2,857</b>	<b>90,236</b>	<b>188</b>	<b>2,393,500</b>	<b>119,445</b>
<b>Accumulated Depreciation &amp; Impairment</b>									
At 1st April 2016	-	(28,372)	(55,142)	(48,892)	(6)	(31)	-	(132,443)	(7,948)
Depreciation Charge	(7,199)	(22,215)	(6,118)	(6,720)	-	(13)	-	(42,265)	(4,678)
Depreciation written out to the Revaluation Reserve	69	13,844	6,752	-	-	17	-	20,682	1,490
Depreciation written out to the Surplus/Deficit on the provision of services	7,130	5,235	-	-	-	-	-	12,365	12
De-recognition – disposals	-	1,551	-	30	-	7	-	1,588	-
Other movements in depreciation	-	32	-	-	-	(1)	-	31	-
<b>As at 31st March 2017</b>	<b>-</b>	<b>(29,925)</b>	<b>(54,508)</b>	<b>(55,582)</b>	<b>(6)</b>	<b>(21)</b>	<b>-</b>	<b>(140,042)</b>	<b>(11,124)</b>
<b>Net Book Value as at 31st March 2017</b>	<b>849,760</b>	<b>1,061,277</b>	<b>34,079</b>	<b>215,088</b>	<b>2,851</b>	<b>90,215</b>	<b>188</b>	<b>2,253,458</b>	<b>108,321</b>
As at 1st April 2016	661,328	1,113,471	27,694	219,386	3,269	95,275	23,370	2,143,793	106,250

### 31. Property, Plant and Equipment continued

#### **Capital Commitments**

At 31<sup>st</sup> March 2018, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2018/19. Similar commitments at 31<sup>st</sup> March 2017 were £3.8m. The major commitments are:

Contract for Capital Investment	Period	£000
Fullhurst Expansion	2018-19	11,631
Secondary School Temporary Modular Buildings	2018-19	3,259
Leicester Market Redevelopment	2018-19	1,801
Secondary School Expansions	2018-19	1,394
Waterside Primary School	2018-19	739
PFI Secondary School Expansions	2018-19	382
Overdale School Maintenance Contract	2018-19	340
Inglehurst Primary School Basic Need	2018-19	254
Uplands Infants School Maintenance Contract	2018-19	247
Stokes Wood School Maintenance Contract	2018-19	243
Non-PFI Secondary School Expansions	2018-19	226
Automatic Call Distribution System Upgrade	2018-19	208
Braunstone Frith Primary School Maintenance Contract	2018-19	159
Childrens' Homes Maintenance Programme	2018-19	143
Building Schools for the Future (BSF) Programme	2018-19	123
HR	2018-19	111
<b>Total</b>		<b>21,260</b>

Commitments relating to Finance Lease and PFI type schemes are included in Notes 35 and 36.

#### **Revaluations**

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

Properties are initially valued as at the 1<sup>st</sup> April of the financial year but are adjusted, if appropriate, to ensure that the valuation is still accurate at the financial year end.

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

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

2017/18 Valuation Dates	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	-	9,198	18,778	210,799	40	10,136	1,638	<b>250,589</b>
Valued at fair or nominal value as at:								
Pre 1st April 2009	-	53	-	-	18	-	-	<b>71</b>
1st April 2009	-	852	-	-	456	-	-	<b>1,308</b>
1st April 2010	-	2	-	-	-	-	-	<b>2</b>
1st April 2011	-	998	-	-	-	-	-	<b>998</b>
1st April 2012	-	7,638	-	332	390	-	-	<b>8,360</b>
1st April 2013	-	9,360	-	-	-	199	-	<b>9,559</b>
1st April 2014	-	31,921	-	533	413	-	-	<b>32,867</b>
1st April 2015	-	42,139	-	-	477	28	-	<b>42,644</b>
1st April 2016	-	4,728	2,149	(1)	(2)	3,515	-	<b>10,389</b>
1st April 2017	-	910,619	14,683	111	1,965	64,500	-	<b>991,878</b>
Valued @ 31st January 2018	910,318	-	-	-	-	-	-	<b>910,318</b>
<b>Total</b>	<b>910,318</b>	<b>1,017,508</b>	<b>35,610</b>	<b>211,774</b>	<b>3,757</b>	<b>78,378</b>	<b>1,638</b>	<b>2,258,983</b>

### 32. Intangible Assets

The Council accounts for its computer software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licenses and application software.

At present all of the Council's intangible assets are amortised over 5 years on a straight-line basis. None of the Council's intangible assets have been internally generated.

	2016/17 £000	2017/18 £000
Balance at 1st April		
Gross Carrying Amounts	3,108	3,666
Accumulated Amortisation	(1,906)	(1,039)
<b>Net carrying amount at start of year</b>	<b>1,202</b>	<b>2,627</b>
Additions (Purchases)	1,786	1,487
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	(1,400)	(622)
Write-out of impairment amortisation	1,319	424
Reclassified from other asset classifications	172	-
Amortisation applied in Year	(452)	(542)
<b>Gross Carrying Amount at 31st March</b>	<b>3,666</b>	<b>4,531</b>
Accumulated Amortisation	(1,039)	(1,157)
<b>Net Carrying Amount at 31st March</b>	<b>2,627</b>	<b>3,374</b>

### 33. Heritage Assets

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

The following tables show the movement in the value of Heritage assets during 2017-18 and previous year.

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

<b>Movement on Balances 2017/18</b>	<b>Buildings £000</b>	<b>Museum Exhibits £000</b>	<b>Statues &amp; Monuments £000</b>	<b>Total Assets £000</b>
<b>Cost or Valuation</b>				
At 1st April 2017	2,633	100,544	5,876	109,053
Additions	-	1,026	-	1,026
Disposals	-	-	-	-
Revaluations	(73)	1,403	-	1,330
<b>As at 31st March 2018</b>	<b>2,560</b>	<b>102,973</b>	<b>5,876</b>	<b>111,409</b>
<b>2016/17 Comparative Movements</b>	<b>Buildings £000</b>	<b>Museum Exhibits £000</b>	<b>Statues &amp; Monuments £000</b>	<b>Total Assets £000</b>
<b>Cost or Valuation</b>				
At 1st April 2016	2,657	100,483	5,876	109,016
Additions	-	380	-	380
Disposals	-	(12)	-	(12)
Revaluations	(24)	(307)	-	(331)
<b>As at 31st March 2017</b>	<b>2,633</b>	<b>100,544</b>	<b>5,876</b>	<b>109,053</b>

#### ***Heritage Buildings***

These include the Magazine, Abbey House and the Great Hall at Leicester Castle. The land and buildings relating to these assets are included within the 5-year revaluation cycle employed by the Council. However, none of these assets are charged depreciation as per the Council's stated accounting policy on Heritage Assets (see Section 6). Some buildings that are part of Leicester's heritage are included within the categories contained in Note 31.



### **33. Heritage Assets continued**

#### ***Museum Exhibits***

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

There are currently around two million museum and gallery exhibits which are managed in accordance with the policies and procedures approved by the Council in line with nationally and internationally agreed standards.

Museum exhibits are included in the Balance Sheet at insurance value rather than current or fair value, reflecting the fact that sales and exchanges are uncommon. Additions to the exhibits collection are initially included at historical cost and are then included in annual insurance revaluations.

Some of the City Council's museum exhibits collection are displayed at the King Richard III visitor centre and form part of the overall valuation included in the Balance Sheet. Items of civic silver and other mayoral regalia are on display at the town hall

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

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

### **34. Assets Held for Sale**

	2016/17 £000	2017/18 £000
Balance at 1st April	10,073	14,582
Property, Plant and Equipment newly classified as held for sale	9,647	0
Property, Plant and Equipment declassified as held for sale	(4,066)	(2,589)
Assets Sold	(645)	(7,467)
Other Movements	(427)	(242)
<b>Balance at 31st March</b>	<b>14,582</b>	<b>4,284</b>

### 35. 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 2017 £000	31st March 2018 £000
Other Land and Buildings	5,980	5,819
Vehicles, Plant and Equipment	412	282
<b>Total</b>	<b>6,392</b>	<b>6,101</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 2017 £000	31st March 2018 £000
Finance lease liabilities	7,009	7,098
Finance costs payable in future years	15,228	14,796
<b>Total minimum lease payments</b>	<b>22,237</b>	<b>21,894</b>

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31st March 2017 £000	31st March 2018 £000	31st March 2017 £000	31st March 2018 £000
Within one year	343	343	(89)	(86)
Within 2 to 5 years	1,743	1,890	62	234
Later than 5 years	20,151	19,661	7,036	6,950
<b>Total</b>	<b>22,237</b>	<b>21,894</b>	<b>7,009</b>	<b>7,098</b>

### 35. Leases continued

#### *Operating Leases*

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

	31st March 2018 £000
Not later than one year	689
Later than one year and not later than 5 years	1,949
Later than 5 years	2,098
<b>Total</b>	<b>4,736</b>

#### ***Council as Lessor***

#### *Finance Leases*

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

Finance Lease Debtor	31st March 2018 £000
Current	16
Non-current	492
Unearned finance income	452
<b>Gross Investment in the lease</b>	<b>960</b>

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

Minimum Lease Payments	31st March 2018 £000
Within one year	34
Within 2 to 5 years	99
Later than 5 years	827
<b>Total</b>	<b>960</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.

### 35. Leases continued

#### *Operating Leases*

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

	31st March 2017 £000	31st March 2018 £000
Not later than one year	4,499	5,087
Later than one year and not later than 5 years	13,322	14,090
Later than 5 years	84,055	83,853
<b>Total</b>	<b>101,876</b>	<b>103,030</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.

### 36. 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.

2017/18 was the fifteenth year of the operation of the contract, costing £14.3m (£13.9m in 2016/17).

#### *Property Plant and Equipment*

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

	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Total £000
Balance at 1st April 2017	14,133	1,651	15,784
Additions	-	-	-
Depreciation	(1,285)	(1,011)	(2,296)
<b>Balance at 31st March 2018</b>	<b>12,848</b>	<b>640</b>	<b>13,488</b>

### **36. Private Finance Initiatives and Service Concession Arrangement continued**

#### *Payments*

The Council makes an agreed payment each year which is increased by inflation (based on the RPI-X measure) and can be reduced if the contractor fails to meet performance standards. Payments remaining to be made under the PFI contract at 31<sup>st</sup> March 2018 (excluding future inflation) are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Within 1 year	6,538	1,961	759	9,258
Within 2 to 5 years	26,397	8,130	2,470	36,997
Within 6 to 10 years	33,487	9,921	2,074	45,482
Within 11 to 15 years	680	124	9	813
<b>Total</b>	<b>67,102</b>	<b>20,136</b>	<b>5,312</b>	<b>92,550</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:

	2016/17 £000	2017/18 £000
Balance outstanding at 1st April	8,945	7,144
Payments during the year	(1,941)	(1,944)
Additions	140	-
<b>Balance at 31st March</b>	<b>7,144</b>	<b>5,200</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 BSF Company 1 Limited under a PFI scheme. The contractor was to design, build, finance and operate, on the existing sites, replacement buildings for two community colleges – Judgemeadow and Soar Valley – valued at £34.9m (on completion of the rebuild in 2009). At the end of the contract, as things stand, all assets will revert to Council control. Under the Government's current policies the trend of more schools becoming academies is likely to continue. If any PFI schools convert, the Council will continue to make payments under this contract from a combination of PFI credits and contributions from schools. At conversion the assets would transfer to the academy, subject to the on-going provisions of the PFI contract. The rebuild for phase 1 was completed in 2009 and 2017/18 was therefore the ninth year of the operation of the contract costing £6.6m.

### **36. Private Finance Initiatives and Service Concession Arrangement continued**

#### *Property Plant and Equipment*

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

	Other Land & Buildings £000
Balance at 1st April 2017	39,108
Revaluations	5,816
Depreciation	(942)
<b>Balance at 31st March 2018</b>	<b>43,982</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<sup>st</sup> March 2018 are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Within 1 year	1,584	533	2,560	4,677
Within 2 to 5 years	6,397	4,122	9,588	20,107
Within 6 to 10 years	7,921	7,865	9,455	25,241
Within 11 to 15 years	7,951	11,707	5,446	25,104
Within 16 to 20 years	1,848	4,284	400	6,532
<b>Total</b>	<b>25,701</b>	<b>28,511</b>	<b>27,449</b>	<b>81,661</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:

	2016/17 £000	2017/18 £000
Balance outstanding at 1st April	30,510	29,368
Payments during the year	(1,142)	(857)
<b>Balance at 31st March</b>	<b>29,368</b>	<b>28,511</b>

### **36. Private Finance Initiatives and Service Concession Arrangement continued**

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

On 31<sup>st</sup> March 2012 the City Council committed to a new joint PFI project scheme for the re-building of Crown Hills and City of Leicester Community Colleges. The Council is contracted to Leicester BSF Company 2 Limited for 25 years. The new schools became operational at the end of October 2013 with construction costs of £44.6m. At the end of the contract, as things stand, all assets will revert to City Council control. Under the Government's current policies the trend of more schools becoming academies is likely to continue. If any PFI schools convert, the Council will continue to make payments under this contract from a combination of PFI credits and contributions from schools. At conversion assets would transfer to the academy, subject to the on-going provisions of the PFI contract. 2017/18 was the fifth year of the operation of the contract costing £6.7m.

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

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

	Other Land & Buildings £000
Balance at 1st April 2017	44,897
Revaluations/(Impairment)	(645)
Depreciation	(1,058)
<b>Balance at 31st March 2018</b>	<b>43,194</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<sup>st</sup> March 2018 are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Lifecycle Capital Replacement Costs £000	Total £000
Within 1 year	1,969	1,270	2,691	296	6,226
Within 2 to 5 years	7,876	5,657	9,861	1,514	24,908
Within 6 to 10 years	9,844	6,722	10,279	4,289	31,134
Within 11 to 15 years	9,844	10,342	7,519	3,430	31,135
Within 16 to 20 years	9,844	13,291	3,561	4,438	31,134
Within 21 to 25 years	1,150	1,908	75	504	3,637
<b>Total</b>	<b>40,527</b>	<b>39,190</b>	<b>33,986</b>	<b>14,471</b>	<b>128,174</b>

### **36. Private Finance Initiatives and Service Concession Arrangement continued**

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

	2016/17 £000	2017/18 £000
Balance outstanding at 1st April	41,794	40,519
Payments during the year	(1,275)	(1,328)
<b>Balance at 31st March</b>	<b>40,519</b>	<b>39,191</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.

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

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

The assets used to provide the service and directly attributable to the City Council are recognised on the Council's Balance Sheet. The value of fixed assets attributable to the Council and operational as at 31<sup>st</sup> March 2018 are shown below:

	Vehicles, Plant & Equipment £000
Balance at 1st April 2017	8,532
Depreciation	(408)
<b>Balance at 31st March 2018</b>	<b>8,124</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 2018 (excluding future inflation increases and the final phase which has yet to be completed) are as follows:



### **36. Private Finance Initiatives and Service Concession Arrangement** **continued**

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Lifecycle Capital Replacement Costs £000	Total £000
Within 1 year	1,340	292	846	215	2,693
Within 2 to 5 years	7,172	838	3,373	860	12,243
Within 6 to 10 years	8,965	1,603	3,661	1,076	15,305
Within 11 to 15 years	8,965	2,561	2,703	1,076	15,305
Within 16 to 20 years	7,484	3,623	1,172	968	13,247
Within 21 to 25 years	2,005	246	70	-	2,321
<b>Total</b>	<b>35,931</b>	<b>9,163</b>	<b>11,825</b>	<b>4,195</b>	<b>61,114</b>

#### *Liability*

The liability outstanding to the contractor for capital expenditure incurred up to 31<sup>st</sup> March 2018 is as per the following table:

	2016/17 £000	2017/18 £000
Liability for capital expenditure incurred for operational phases	8,975	8,838
Payments during the year	(137)	(225)
<b>Balance at 31st March</b>	<b>8,838</b>	<b>8,613</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.

## **Notes Relating to the Council's Working Capital, Financial Assets and Liabilities**

The notes in this section provide information on the Council's financial assets and liabilities. These are the result of the Council's day to day operations and represent the cash held by the Council to finance its activities, or liabilities incurred in the course of these.

The notes cover:

- Financial instruments including investments and borrowing incurred in the course of the Council's activities
- An overview of the main risks affecting the Council in relation to financial instruments
- Details of the value of the Council's working capital assets including inventories, debtors and cash or cash equivalents
- Details of financial liabilities, particularly creditors
- Notes supporting the Cash Flow Statement illustrating how the Council's cash position has changed during 2017/18

They will assist readers in gaining greater understanding of the way that Council uses cash and other working capital to facilitate its day to day operations and the risks that the Council considers when managing its financial assets.

### 37. Financial Instruments

#### (a) Financial Instruments - Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Category	Amount 31st March 2017 £000	Amount 31st March 2018 £000	Comment / Reference
<b>Long Term Investments</b>			
<b>Amount in Balance Sheet</b>	<b>4,990</b>	<b>32,500</b>	
Amounts covered in Note 37:	4,990	32,500	This note - section B Table 2
<b>Short Term Investments</b>			
<b>Amount in Balance Sheet</b>	<b>168,026</b>	<b>192,380</b>	
Amounts covered in Note 37:	168,026	192,380	This note - section B Table 2
<b>Short Term Borrowing</b>			
<b>Amount in Balance Sheet</b>	<b>9,234</b>	<b>19,995</b>	
Amounts covered in Note 37:	9,234	19,995	This note - section B Table 1
<b>Long Term Borrowing</b>			
<b>Amount in Balance Sheet</b>	<b>243,063</b>	<b>234,495</b>	
Amounts covered in Note 37:	243,063	234,495	This note - section B Table 1
<b>Other Long Term Liabilities</b>			
<b>Amount in Balance Sheet</b>	<b>770,227</b>	<b>743,818</b>	
Amounts covered in Note 37:	114,532	109,525	This note - section B Table 1
Amounts not covered in Note 37:			
Liability related to defined benefit pension schemes	655,450	634,031	Note 13a - Defined Benefit Pensions
Amounts related to Bonds	245	263	Not separately disclosed

### 37. Financial Instruments continued

#### (b) Financial Instruments - Balances

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

Financial Liabilities	Long Term		Short Term	
	31st March 2017 £000	31st March 2018 £000	31st March 2017 £000	31st March 2018 £000
Loans at amortised cost:				
- Principal sum borrowed	239,342	230,791	7,042	17,781
- Accrued interest	-	-	2,192	2,214
- EIR adjustments	3,721	3,704	-	-
<b>Total Borrowing</b>	<b>243,063</b>	<b>234,495</b>	<b>9,234</b>	<b>19,995</b>
Liabilities at amortised cost:				
- Finance leases	7,094	7,184	-	-
- PFI arrangements	81,487	77,456	4,295	4,056
- Transferred debt liability	25,384	24,347	1,058	1,037
<b>Total Other Long-term Liabilities</b>	<b>113,965</b>	<b>108,987</b>	<b>5,353</b>	<b>5,093</b>
Liabilities at amortised cost:				
- Trade payables	-	-	66,949	77,989
- PFI arrangements	567	538	-	-
<b>Included in Creditors</b>	<b>567</b>	<b>538</b>	<b>66,949</b>	<b>77,989</b>
<b>Total Financial Liabilities</b>	<b>357,595</b>	<b>344,020</b>	<b>81,536</b>	<b>103,077</b>

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

Financial Assets	Long Term		Short Term	
	31st March 2017 £000	31st March 2018 £000	31st March 2017 £000	31st March 2018 £000
Loans and receivables:				
- Principal at amortised cost	1,097	32,500	162,500	182,500
- Accrued interest	-	-	519	575
Available-for-sale investments:				
- Principal at amortised cost	4,990	-	4,999	9,292
- Accrued interest	-	-	8	13
<b>Total Investments</b>	<b>6,087</b>	<b>32,500</b>	<b>168,026</b>	<b>192,380</b>
Loans and receivables:				
- Cash (including bank accounts)	-	-	10,336	14,068
Available-for-sale investments:				
- Cash equivalents at fair value	-	-	8,000	30,000
<b>Total Cash and Cash Equivalents</b>	<b>-</b>	<b>-</b>	<b>18,336</b>	<b>44,068</b>
Loans and receivables:				
- Trade receivables	968	3,482	34,753	31,938
- Loans made for service purpose	3,990	5,483	5,761	1,340
<b>Included in Debtors</b>	<b>4,958</b>	<b>8,965</b>	<b>40,514</b>	<b>33,278</b>
<b>Total Financial Assets</b>	<b>11,045</b>	<b>41,465</b>	<b>226,876</b>	<b>269,726</b>

### 37. Financial Instruments continued

#### (c) Financial Instruments - Gains and Losses

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

	Financial Liabilities	Financial Assets			
	Amortised Cost	Loans & Receivables	Available-for-Sale Assets	2017/18 Total	2016/17 Total
	£000	£000	£000	£000	£000
Interest expense	20,954	-	-	20,954	21,237
<b>Interest payable and similar charges</b>	<b>20,954</b>	<b>-</b>	<b>-</b>	<b>20,954</b>	<b>21,237</b>
Interest income	-	(1,509)	(114)	(1,623)	(1,395)
<b>Interest and investment income</b>	<b>-</b>	<b>(1,509)</b>	<b>(114)</b>	<b>(1,623)</b>	<b>(1,395)</b>
<b>Net Gain/(Loss) for the Year</b>	<b>20,954</b>	<b>(1,509)</b>	<b>(114)</b>	<b>19,331</b>	<b>19,842</b>

#### (d) Financial Instruments - Fair Values

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds, the fair value is taken from the market price.

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

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

### 37. Financial Instruments continued

The table below shows the amounts held at 31<sup>st</sup> March 2018 and the fair value reported in the 2017/18 accounts.

	Fair Value Level	31st March 2017		31st March 2018	
		Balance Sheet £000	Fair Value £000	Balance Sheet £000	Fair Value £000
<i>Financial liabilities held at amortised cost:</i>					
Long-term loans from PWLB	2	134,491	199,285	134,491	192,077
Long-term LOBO loans	2	73,004	120,937	73,963	115,915
Other long-term loans	2	26,892	36,457	26,884	35,241
Bonds issued	1	8,676	9,769	8,677	9,951
Lease payables and PFI liabilities	2	93,442	152,096	89,233	153,557
Transferred debt liabilities	2	26,442	42,662	25,384	37,505
<b>Total</b>		<b>362,947</b>	<b>561,206</b>	<b>358,632</b>	<b>544,246</b>
Liabilities for which fair value is not disclosed *		76,183		88,464	
<b>Total Financial Liabilities</b>		<b>439,130</b>	<b>561,206</b>	<b>447,096</b>	<b>544,246</b>
<i>Recorded on balance sheet as:</i>					
Short-term creditors		72,302		83,082	
Short-term borrowing		9,234		19,995	
Long-term creditors		25,384		24,347	
Long-term borrowing		243,063		234,495	
Other long-term liabilities		89,147		85,177	
<b>Total Financial Liabilities</b>		<b>439,130</b>		<b>447,096</b>	

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

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

### 37. Financial Instruments continued

	Fair Value Level	31st March 2017		31st March 2018	
		Balance Sheet £000	Fair Value £000	Balance Sheet £000	Fair Value £000
<i>Financial assets held at fair value:</i>					
Money market funds	1	8,000	8,000	31,701	31,701
Corporate, covered and government bonds	2	4,990	4,990	7,590	7,590
<i>Financial assets held at amortised cost:</i>					
Long-term loans to local authorities	2	-	-	-	-
Long-term loans to companies	3	9,751	9,751	6,823	6,823
Finance Lease	3	1,097	1,097	761	761
Long-term Debtor	3	968	968	-	-
<b>Total</b>		<b>24,806</b>	<b>24,806</b>	<b>46,875</b>	<b>46,875</b>
Assets for which fair value is not disclosed *		213,115		264,316	
<b>Total Financial Assets</b>		<b>237,921</b>	<b>24,806</b>	<b>311,191</b>	<b>46,875</b>
<i>Recorded on balance sheet as:</i>					
Long-term debtors		7,826		8,965	
Long-term investments		4,990		32,500	
Short-term debtors		38,743		33,278	
Short-term investments		168,026		192,380	
Cash and cash equivalents		18,336		44,068	
<b>Total Financial Assets</b>		<b>237,921</b>		<b>311,191</b>	

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

### 38. Nature and Extent of Risks arising from Financial Instruments

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

- *Credit Risk:* The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the Council.
- *Liquidity Risk:* The possibility that the Council might not have the cash available to make contracted payments on time.
- *Market Risk:* The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

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

### **38. Nature and Extent of Risks arising from Financial Instruments continued**

#### **a) Credit Risk**

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by leading credit rating agencies. Investments are also made in unrated building societies considered to be of equivalent credit worthiness.

The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

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

Investment Type	Maximum Investment Period	Minimum Credit Rating	Individual Lending Limit	Limit for Investment Type
Deposits – Credit Rated Banks and Building Societies	366 Days	A long term rating of A and a short term rating of F1	£10m.	£100m
	6 months	A long term rating of A- and a short term rating of F2	£10m.	
	100 days or less	A long term rating of BBB+ and a short term rating of F2	£10m Additional £5m overnight limit for Barclays Bank	
Covered Bonds	5 years	A long term rating of AA	£20m £2m for unrated building societies	Included in above
REPO Agreements	1 year	To be no less secure than a deposit	£20m	Included in above
Deposits – unrated building societies	6 months	N/A – Advice taken from Treasury Advisors	£1m	£10m



### 38. Nature and Extent of Risks arising from Financial Instruments continued

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

Investment Type	Counterparty	Maximum Investment Period	Minimum Credit Rating	Individual Lending Limit	Limit for Investment Type
Deposits & Bonds	Local authority	5 Years	None required	£20m	£200m
Bonds	Local Government Bonds Agency	5 Years	A long term rating of AA-	£20m	
Bonds, Bills and Deposits	UK Public Sector & Quasi-Public Sector	5 Years	A long term rating of AA-	£20m	£40m
Deposits and Treasury Bills	UK Government / UK Government Guarantee	Unlimited	None required	Unlimited	Unlimited
Bonds	International Development Banks	5 Years	A long term rating of AA- plus backing of one or more G7 countries.	£10m	£40m
Money Market Funds, Money Market Plus Funds and Short-Dated Bond Funds	Various Fund Managers	Up to 3 months Advice taken from Treasury Advisors	AAAmmf Or AAf	£20m	£120m of which no more than £30M in property funds and no more than £50m in longer dated funds and funds investing in Asset Based Securities
Longer dated Bond Funds and funds investing in Asset Based Securities	Various Fund Managers	Advice taken from Treasury Advisors	AAf	£10M	
Property Funds	Various Fund Managers	Investments can be sold in market.	Not Applicable	£10m	

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

### 38. Nature and Extent of Risks arising from Financial Instruments continued

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 £64m as at 31<sup>st</sup> March 2018 (£81m as at 31<sup>st</sup> March 2017) 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<sup>st</sup> March 2018 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 £189m (£99m as at 31<sup>st</sup> March 2017). Such investments are assessed to be virtually risk free.

The value of the Council's receivables classified as financial instruments on the Balance Sheet as at 31<sup>st</sup> March 2018 was £17.2m (£21.2m as at 31<sup>st</sup> March 2017). The following matrix is used for both 2015/16 and 2016/17 to estimate the non-collectible proportion of these receivables.

Age of Receivable	Estimated Non-Collection Rate
Less than One Month	0%
One Month to Three Months	10%
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 Years	100%

It is estimated that the uncollectable amount on commercial and personal debts outstanding as at 31<sup>st</sup> March 2018 will be £9.4m (£11.0m as at 31<sup>st</sup> March 2017) and that the impaired value of these debts are £7.8m (£10.2m as at 31<sup>st</sup> March 2017).

The following table shows current 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.

	31st March 2017		31st March 2018	
	Due £000	Impaired Value £000	Due £000	Impaired Value £000
Less than 3 months	7,883	7,671	6,212	6,039
Three to six months	1,040	780	713	535
Six months to one year	2,547	999	1,496	568
More than one year	9,738	794	8,793	604
<b>Total</b>	<b>21,208</b>	<b>10,244</b>	<b>17,214</b>	<b>7,746</b>

### **38. Nature and Extent of Risks arising from Financial Instruments continued**

#### **b) Liquidity Risk**

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans.

The maturity analysis of the principal sums borrowed is as follows:

Time to maturity (years)	31st March 2017 £000	31st March 2018 £000
Not over 1	27,229	32,138
Over 1 but not over 2	14,425	7,648
Over 2 but not over 5	21,932	21,806
Over 5 but not over 10	30,106	29,924
Over 10 but not over 20	28,183	27,901
Over 20 but not over 30	24,972	24,769
Over 30	225,333	224,921
<b>Total</b>	<b>372,180</b>	<b>369,107</b>

The Council has £73m of “Lender’s option, borrower’s option” (LOBO) loans where the lender has the option to propose an increase in the rate payable. The Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely to repay these loans. The maturity date is therefore uncertain.

#### **c) Market Risks**

##### ***Interest Rate Risk***

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited will rise
- investments at fixed rates – the fair value of the assets will fall.

Investments classed as “loans and receivables” and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on

### **38. Nature and Extent of Risks arising from Financial Instruments continued**

variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as “available for sale” will be reflected in Other Comprehensive Income and Expenditure.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000
Increase in interest receivable on variable rate investments	399
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>399</b>
Decrease in fair value of available for sale financial assets	0
<b>Impact on Comprehensive Income and Expenditure</b>	<b>0</b>
Decrease in fair value of loans and receivables *	325
Decrease in fair value of fixed rate borrowings/liabilities *	75,151

\*No impact on Comprehensive Income and Expenditure.

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

#### ***Price Risk***

The market prices of the Council’s fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

The market price of the Council’s property fund investments are determined by the market prices of the underlying property assets owned by the funds. The impact of the 5% fall in value of the property fund value would be a reduction in value of £85k.

#### ***Foreign Exchange Risk***

The Council has no exposure to foreign exchange risk.

#### ***Other Risks***

The Council has bonds quoted on the London Stock Exchange. These were issued in 1994 with a nominal value of £80m. £72m were repurchased from lenders in 2004 leaving a residue of £8m. The interest rate on these bonds is 7% and is higher than current market rates for new bonds with the same maturity.

The Council has no plans to buy the remaining bonds from the holders and these mature naturally in January 2019. It is considered that no risk or onerous obligations arise from these bonds.

### 39. Inventories

The value of inventories as at 31<sup>st</sup> March 2018 is shown in the table below:

	Balance at 31st March 2017 £000	Balance at 31st March 2018 £000
Consumable Stores	360	409
Maintenance Materials	1,952	2,080
Work in Progress	111	269
<b>Total</b>	<b>2,423</b>	<b>2,758</b>

### 40. Debtors

#### *Long-Term Debtors*

	Balance at 31st March 2017 £000	Balance at 31st March 2018 £000
Mortgages	20	22
Car Loans to Employees	5	-
PFI Lease	2,065	1,944
Other Long Term Debtors	7,765	6,999
<b>Total</b>	<b>9,855</b>	<b>8,965</b>

#### *Short-Term Debtors*

	Balance at 31st March 2017 £000	Balance at 31st March 2018 £000
Central Government bodies	5,928	9,659
Other Local Authorities	1,279	1,865
NHS bodies	2,205	2,577
Public Corporations and Trading Funds	4	3
Other Entities and Individuals	31,762	28,212
Payments in Advance	9,064	8,337
<b>Total</b>	<b>50,242</b>	<b>50,653</b>

#### 41. Creditors

	Balance at 31st March 2017 £000	Balance at 31st March 2018 £000
Central Government bodies	21,115	36,491
Other Local Authorities	6,805	8,430
NHS bodies	1,033	1,280
Other Entities and Individuals	75,839	87,805
Receipts in Advance	28,653	29,832
<b>Total</b>	<b>133,445</b>	<b>163,838</b>

#### 42. Cash and Cash Equivalents

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

	Balance at 31st March 2017 £000	Balance at 31st March 2018 £000
Cash held by the Council	57	57
Bank	10,279	14,011
Short-term deposits with local authorities - Investment	8,000	30,000
<b>Total Cash and Cash Equivalents</b>	<b>18,336</b>	<b>44,068</b>

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

	2016/17 £000	2017/18 £000
Interest received	1,334	1,561
Interest paid	(13,606)	(20,682)
<b>Net interest</b>	<b>(12,272)</b>	<b>(19,121)</b>

#### **43. Cash Flow Statement – Interest included in Operating Activities continued**

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

	2016/17 £000	2017/18 £000
Depreciation	42,265	43,631
Downward revaluations, impairment losses and reversal of prior year impairments	(94,474)	88,561
Amortisation	452	542
Increase / (decrease) in creditors	6,294	28,617
(Increase) / decrease in debtors	6,616	(3,818)
(Increase) / decrease in inventories	387	(335)
Movement in pension liability	16,812	36,760
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	67,091	77,110
Other non-cash items charged to the net surplus or deficit on the provision of services	5,403	63
	<b>50,846</b>	<b>271,131</b>

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

	2016/17 £000	2017/18 £000
Capital Grants credited to surplus or deficit on the provision of services	(54,916)	(62,920)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(30,749)	(32,775)
	<b>(85,665)</b>	<b>(95,695)</b>

#### **44. Cash Flow Statement – Investing Activities**

	2016/17 £000	2017/18 £000
Purchase of property, plant and equipment and intangible assets	(80,788)	(76,041)
Purchase of short-term and long-term investments	(862,666)	(1,020,403)
Other payments for investing activities	(5,260)	2,200
Proceeds from sale of property, plant and equipment and int assets	30,781	32,775
Proceeds from short-term and long-term investments	834,062	968,600
Other receipts from investing activities	61,204	88,752
<b>Net Cash Flows from Investing Activities</b>	<b>(22,667)</b>	<b>(4,117)</b>

**45. Cash Flow Statement – Financing Activities**

	2016/17 £000	2017/18 £000
Cash receipts of short and long-term borrowing	26,200	46,960
Cash payments for the reduction of the outstanding liabilities relating to finance leases and PFI contracts	(4,723)	(5,007)
Repayments of short and long-term borrowing	(20,305)	(44,790)
Other payments for financing activities	1,353	757
<b>Net Cash Flows from Financing Activities</b>	<b>2,525</b>	<b>(2,080)</b>



## **SECTION 4 – HOUSING REVENUE ACCOUNT (HRA)**

The Housing Revenue Account (HRA) is a ring-fenced account that represents the Council's social housing service. This service is required by law to be ring-fenced in order to ensure that there is a clear link between rents charged to tenants and expenditure on social housing.

### **HRA INCOME AND EXPENDITURE STATEMENT**

<b>2016/17 £000</b>		<b>Note</b>	<b>2017/18 £000</b>
	<b><u>Income</u></b>		
(79,112)	Dwelling Rents	5	(77,322)
(1,160)	Non-dwelling Rents	6	(1,073)
(4,600)	Service Charges	6	(4,520)
-	Contributions from General Fund		-
<b>(84,872)</b>	<b>Total Income</b>		<b>(82,915)</b>
	<b><u>Expenditure</u></b>		
10,498	General Management		11,650
9,697	Special Management	3	11,457
30,463	Repairs & Maintenance		27,597
740	Rent, Rates, Taxes & Other Charges		747
(1,821)	Increase/ (Decrease) in Bad Debt Provision	4	(264)
27,450	Depreciation & Impairment of Fixed Assets	12	28,055
60	Debt Management Expenses		60
<b>77,087</b>	<b>Total Expenditure</b>		<b>79,302</b>
566	HRA share of Corporate & Democratic Core	15	710
<b>(7,219)</b>	<b>"HRA Comprehensive Income and Expenditure Line"</b>		<b>(2,903)</b>
(213,329)	Exceptional item: Reversal of Prior Year Impairments		-
<b>(220,548)</b>	<b>Net Cost of HRA Services</b>		<b>(2,903)</b>
4,595	(Gain) or Loss on Sale of HRA Assets		2,389
10,329	Loan Charges - Interest		10,344
(87)	Investment Interest		(259)
5,277	Pensions - Interest on Liabilities	14	4,811
(3,441)	Pensions - Expected Return on Assets	14	(3,111)
<b>(203,875)</b>	<b>(Surplus) / Deficit for the Year</b>		<b>11,271</b>

## MOVEMENT IN HRA RESERVE STATEMENT

2016/17 £000		Note	2017/18 £000
(203,875)	(Surplus) / Deficit for the Year (from above)		11,271
-	<u>Additional items required by statute and non-statutory proper practices to be taken into account in determining the movement on the Housing Revenue Account balance</u>		
(158)	Amounts charged to the HRA for amortisation of Premia and Discounts for the year determined in accordance with statute		(86)
(2,487)	HRA share of contributions to/(from) the Pension Reserve	14	(4,406)
(4,595)	Gain or (Loss) on Sale of HRA Fixed Assets		(2,389)
185,879	Impairment of Fixed Assets	12	(28,055)
11,260	Capital Expenditure Financed from Revenue Account	10	5,491
111	HRA Set-Aside (MRP)		325
8,075	Transfers to/(from) the Major Repairs Reserve	13	10,473
(7)	Transfers to/(from) the Employee Benefits Reserve		(21)
198,078	<b>Total value of items reversed as part of determining the statutory movement on the Housing Revenue Account Balance</b>		<b>(18,668)</b>
(5,797)	<b>Net (surplus)/deficit on the Housing Revenue Account in the year</b>		<b>(7,397)</b>
(17,551)	Balance Brought Forward 1st April 2017		(23,348)
(23,348)	<b>Balance Carried Forward 31st March 2018</b>		<b>(30,745)</b>

### Note

The underlying surplus on the HRA in 2017/18 was £7.4m, which is set aside for future investment in housing stock.

## NOTES TO THE HRA FINANCIAL STATEMENTS

### 1. Housing Revenue Account

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

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

### 2. Changes to Accounting Practice (and 2016/17 comparative figures)

There has been no change in accounting practice.

### 3. Special Management

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

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

#### *Rents and Service Charges*

The bad debt provision for rents and service charges at 31<sup>st</sup> March 2018 was £0.2m (£0.2m in 2016/17). This is calculated on a rent and service charge arrears balance of £1.4m (£1.6m in 2016/17).

### 5. Net Rent Income from Dwellings

	2016/17 £000	2017/18 £000
Total Rent income from Dwellings	79,112	77,322
Less Housing Benefit	(47,414)	(43,729)
<b>Total</b>	<b>31,698</b>	<b>33,594</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

### Changes to Housing Stock

	2016/17	2017/18
Number of Dwellings at 1st April	21,593	21,150
Construction of new dwellings	1	18
Right to Buy sales	(444)	(409)
<b>Number of Dwellings at 31st March</b>	<b>21,150</b>	<b>20,759</b>

## 8. Value of HRA Assets

	31st March 2017 £000	31st March 2018 £000
Dwellings	849,760	910,318
Other Land and Buildings	15,770	22,618
Vehicles, Plant, Furniture & Equipment	792	582
Surplus Assets	367	759
Intangible Assets	306	744
<b>Total</b>	<b>866,995</b>	<b>935,021</b>

## 9. Vacant Possession Value of Council Dwellings

The vacant possession value of council dwellings at 31<sup>st</sup> March 2018 was £2.2bn. At the same date the balance sheet value of council dwellings was £0.9bn. The difference of £1.3bn 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 2017 £000	31st March 2018 £000
Vacant possession values	2,023,235	2,167,425

## 10. Capital Expenditure

HRA capital expenditure on land, houses and other property in 2017/18 totalled £18.1m, financed as follows:

	2016/17 £000	2017/18 £000
Major Repairs Reserve	8,075	11,673
Usable capital receipts	236	892
Financing from revenue account	11,260	5,491
<b>Total</b>	<b>19,571</b>	<b>18,056</b>

## 11. Capital Disposals

HRA capital disposals in 2017/18 were as follows:

	2016/17	2017/18		
	Total Receipt £000	Usable/ Retained £000	Pooled/ Set aside £000	Total Receipt £000
Right to Buy (RTB) sales	17,357	11,011	7,084	18,095
Non-RTB sales	15	223	-	15
Mortgages	17	-	-	-
<b>Total</b>	<b>17,389</b>	<b>11,234</b>	<b>7,084</b>	<b>18,110</b>

## 12. Depreciation and Impairment of Fixed Assets

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

	2016/17			2017/18		
	Depreciation £000	Impairment £000	Total £000	Depreciation £000	Impairment £000	Total £000
Dwellings*	7,199	(193,962)	(186,763)	9,259	16,614	25,873
Other Land and Buildings	221	15	236	541	977	1,518
Vehicles, Plant, Furniture & Equipment	530	-	530	548	-	548
Surplus Assets	2	(7)	(5)	2	(9)	(7)
Intangible Assets	123	-	123	123	-	123
<b>Total</b>	<b>8,075</b>	<b>(193,954)</b>	<b>(185,879)</b>	<b>10,473</b>	<b>17,582</b>	<b>28,055</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

	2016/17 £000	2017/18 £000
Balance at 1st April	(1,200)	(1,200)
Depreciation credited	(8,075)	(10,473)
Capital expenditure on land, houses and other property	8,075	11,673
<b>Balance at 31st March</b>	<b>(1,200)</b>	<b>-</b>

### 14. HRA Contributions to the Pensions Reserve

This table identifies the total HRA share of contributions to and (from) the pensions reserve and breaks the figure down to show the type of contribution to or (from) the reserve. More detailed information on pensions is provided in note 12 to the core financial statements.

	2016/17 £000	2017/18 £000
Pension costs incurred in Net Cost of Services		
Current service cost	(651)	(2,706)
	(651)	(2,706)
Pension interest cost and expected return on assets		
Interest on liabilities	(5,277)	(4,811)
Expected return on assets	3,441	3,111
	(1,836)	(1,700)
<b>Total Transfer to Pension Reserve</b>	<b>(2,487)</b>	<b>(4,406)</b>

## **SECTION 5 – COLLECTION FUND**

The Collection Fund is a ring-fenced account that represents the Council's role in collecting Council Tax and Non-Domestic Rates for the City of Leicester. The Council records taxation income in the Collection Fund and then makes distributions to precepting authorities including the Leicestershire Fire and Police authorities as well as to the Council's own General Fund.

### **Collection Fund Income & Expenditure Account**

2016/17				Note	2017/18		
Council Tax	Business Rates	Total			Council Tax	Business Rates	Total
£000	£000	£000			£000	£000	£000
			<b>Income</b>				
(113,472)		(113,472)	Council Tax Collectable	2	(120,764)		(120,764)
	(105,125)	(105,125)	Income from Business Ratepayers			(100,507)	(100,507)
			Transitional Protection payments - Business Rates			(6,381)	(6,381)
		<b>(218,597)</b>	<b>Total Income</b>				<b>(227,652)</b>
			<b>Expenditure</b>				
			Precepts and Demands:	3			
93,706		93,706	Leicester City Council		100,691		100,691
12,705		12,705	Police & Crime Commissioner for Leicestershire		13,261		13,261
4,265		4,265	Leicestershire & Rutland Combined Fire Authority		4,451		4,451
		110,676					118,403
			Business Rates:	4			
	52,101	52,101	Payments to Government			54,330	54,330
	1,042	1,042	Payments to Fire			1,086	1,086
	51,058	51,058	Payments to Leicester City Council			53,243	53,243
	491	491	Costs of Collection			492	492
		104,692					109,151
4,802	(10,599)	(5,797)	Contributions in respect of previous year's surplus / (deficit)	6	1,411	(1,534)	(123)
			Bad and Doubtful Debts:	7			
1,002	856	1,858	Write-offs		1,240	1,423	2,663
310	1,011	1,321	Increase / (Reduction) to provision		308	378	686
	(2,919)	(2,919)	Increase / (Reduction) to Provision for appeals			2,892	2,892
		260					6,241
		<b>209,831</b>	<b>Total Expenditure</b>				<b>233,672</b>
3,318	(12,084)	(8,766)	Fund (Surplus) / Deficit for the Year		598	5,422	6,020
(5,273)	12,476	7,203	Fund (Surplus) / Deficit brought forward	5	(1,954)	392	(1,562)
<b>(1,955)</b>	<b>392</b>	<b>(1,563)</b>	<b>FUND BALANCE AS AT 31st MARCH</b>	<b>1</b>	<b>(1,356)</b>	<b>5,814</b>	<b>4,458</b>

## Notes to the Collection Fund Income & Expenditure Statement

### 1. Statutory Requirements & Allocation of Balances

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

The balance on the collection fund is split between the relevant bodies as shown in the table below:

	2016/17			2017/18		
	Council Tax	Business Rates	Total	Council Tax	Business Rates	Total
	£000	£000	£000	£000	£000	£000
Leicester City Council	(1,658)	192	(1,466)	(1,153)	2,849	1,696
Government	-	196	196	-	2,907	2,907
Leicestershire & Rutland Combined Fire Authority	(74)	4	(70)	(51)	58	7
Police & Crime Commissioner for Leicestershire	(223)	-	(223)	(152)	-	(152)
<b>Fund Balance Allocations as at 31st March</b>	<b>(1,955)</b>	<b>392</b>	<b>(1,563)</b>	<b>(1,356)</b>	<b>5,814</b>	<b>4,458</b>

### 2. Council Tax Base

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

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-	231	5/9	128	50	78
A	67,830	6/9	45,220	11,354	33,866
B	22,928	7/9	17,833	2,252	15,581
C	13,593	8/9	12,083	1,095	10,988
D	5,752	9/9	5,752	337	5,415
E	3,023	11/9	3,695	120	3,575
F	1,396	13/9	2,016	43	1,973
G	558	15/9	929	11	918
H	31	18/9	62	0	62
	<b>115,342</b>		<b>87,718</b>	<b>15,262</b>	<b>72,456</b>
Less adjustments for collection rates and other adjustments.					(1,631)
<b>Council Tax Base</b>					<b>70,825</b>

The total collectable Council Tax during 2017/18 was £120.8m including arrears from prior years.

The collectable Council Tax specifically for 2017/18 was £145.6m (including sums paid under the Local Council Tax Reduction Scheme). After taking into account the total amount of this reduction (£24.6m), the average number of Band D dwellings equates to 72,360. This is an increase from the 70,285 dwellings existing when the 2017/18 budget was prepared due to the net effect of the following:



## **2. Council Tax Base continued**

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

## **3. Precepts and Demands**

The following sums were paid from the collection fund.

	2016/17 £000	2017/18 £000
Leicester City Council	93,706	100,691
Police & Crime Commissioner for Leicestershire	12,705	13,261
Leicestershire & Rutland Combined Fire Authority	4,264	4,451
<b>Total</b>	<b>110,675</b>	<b>118,403</b>

## **4. Income from Business Rates**

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

	31/03/2017 £	31/03/2018 £
Non Domestic Rateable Value	264,604,103	304,957,214

	2016/17	2017/18
Non Domestic Rating Multiplier	49.7p	47.9p
Non Domestic Rating Multiplier- Small Business	48.4p	46.6p

## **5. Collection Fund Surpluses & Deficits**

The Collection Fund account shows a cumulative deficit of £4,457,437 at 31<sup>st</sup> March 2018 (£1,563,349 surplus at 31<sup>st</sup> March 2017). This has arisen due to uncertainty over the cost of business rate appeals.

The deficit arising on the Council Tax during the financial year 2017/18 will be distributed between Leicester City Council, the Police & Crime Commissioner for

## 5. Collection Fund Surpluses & Deficits continued

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 2017/18 will be shared between Leicester City Council (49%), Central Government (50%) and the Leicester, Leicestershire & Rutland Combined Fire Authority (1%).

## 6. Contributions to Collection Fund Surpluses & Deficits

### *Share of Surpluses/Deficits*

#### *Council Tax*

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

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

	City £000	Police £000	Fire £000	Total £000
Estimated Surplus – Jan 2017	1,195	162	54	1,411

#### *Business Rates*

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

	City £000	Central Government £000	Fire £000	Total £000
Estimated Deficit – Jan 2017	752	767	15	1,534

## 7. 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.

Provisions	Bad Debt Provision			Bad Debt Write-offs In year £000
	Balance at 01/04/2017 £000	Increase/ (Decrease) £000	Balance at 31/03/2018 £000	
Council Tax	6,333	308	6,641	1,240
NNDR	4,014	378	4,392	1,422
<b>Total</b>	<b>10,347</b>	<b>686</b>	<b>11,033</b>	<b>2,662</b>

## **SECTION 6 – ACCOUNTING POLICIES**

**This section of the Statement of Accounts sets out the accounting policies used by the Council in preparing the Statement of Accounts.**

**The Council's accounting policies are based on the Code of Practice on Local Authority Accounting 2017/18 ("the Code") published by the Chartered Institute of Public Finance & Accountancy (CIPFA). The Code is based on a combination of International Financial Reporting Standards and relevant UK statutes applying to local authority accounts.**

**The Council's accounting policies are consistent with the Code but provide greater detail on areas where there is room for discretion or interpretation in the approach that the Council may take.**

**The section details any changes to the accounting policies during 2017/18 and also clarifies where there are accounting standards in issue that have not yet been adopted by the Local Authority sector.**

### **Changes in Accounting Policies**

Only minor amendments have been made to the 2017/18 accounting policies to provide users with greater clarity.

### **Accounting Policies for 2017/18**

#### **1. General Principles**

The Statement of Accounts summarises the City Council's transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. The Council is required to prepare an annual statement by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority accounting in the United Kingdom 2017/18, 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.

#### **2. 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

## **2. Accruals of Income and Expenditure continued**

- 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.

## **3. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash Equivalents are investments that mature within three months from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form part of the Council's cash management.

## **4. 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 (CIES) or in the notes to the accounts, depending on their significance in understanding the Council's financial performance.

## **5. 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.

## **5. Prior Period Adjustments, changes in Accounting Policies and Estimates and Errors continued**

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.

## **6. 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. Depreciation is calculated on opening Net Book Values
- Revaluation & impairment losses on assets used by the service where there was no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, the Council's policy is to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirements. This is known as "Minimum Revenue Provision" (MRP). The Council is also able to make additional voluntary MRP known as "Voluntary Set Aside" (VSA).

Depreciation, revaluations, impairment losses and amortisations are therefore replaced by MRP and VSA in the Movement in Reserves Statement, by way of an adjusting transaction within the Capital Adjustment Account for the difference between the two.

The Council's full policy on the calculation of Minimum Revenue Provision is set out in the annual budget approved by Council. The Council's MRP policy brings the charge into line with asset lives, as opposed to the previous basis whereby MRP on historic borrowing was calculated at 4% of the principal.

## **7. Council Tax & Non Domestic Rates**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principles, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under legislative

## **7. Council Tax & Non Domestic Rates continued**

framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

### **Accounting for Council Tax and NDR**

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

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

## **8. Employee Benefits**

### **Benefits payable during employment**

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

### **Termination Benefits**

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

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

## 8. Employee Benefits continued

### Post-employment Benefits

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

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

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

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

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

- The liabilities of the Leicestershire County Council Pension Scheme attributable to Leicester City Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of future earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate 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

## 8. Employee Benefits continued

- The change in the net pensions liability between Balance Sheet dates is analysed into six components:
  - Current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the CIES to the revenue accounts of services for which the employees worked.
  - Past service costs – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the CIES as part of Non-Distributed Costs.
  - Net interest on the defined benefit liability – the net of the expected increase in the present value of liabilities over the year arising from the passage of time and the expected return on scheme assets discounted at the discount rate used for the liabilities. This is part of Financing & Investment Income & Expenditure.
  - Gains/losses on settlements and curtailments – the results of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services as part of Non-Distributed Costs.
  - Re-measurements of the net defined benefit obligation – this is the change in the net pensions liability over the year attributable to changes in demographic and financial assumptions
  - Contributions paid to the Leicestershire County Council Pension Fund – cash paid as employer's contributions to the pension fund.

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

### Discretionary Benefits

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



## **9. 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

## **10. Fair Value**

The Council ensures that assets and liabilities are valued based on the concept of Fair Value. Fair Value determines that the value of an asset or liability should be based on the price that would be paid for the asset in the open market, or the closest possible approximation of this where an active quoted market does not exist. IFRS 13 provides guidance on the methods for calculating a market value where there is no quoted market.

The Code of Practice allows the Council to value operational assets at 'fair value in use', which takes account of their current purpose and does not require a valuation based on 'highest and best' use.

Non-operational assets and financial instruments are valued at Fair Value based on their highest and best use – i.e. the price that would be paid for them by a knowledgeable market participant acting in their own economic interest.

Fair Value primarily affects fixed assets (property, plant & equipment) and financial assets and liabilities. More information is provided within Notes 33 (PPE) and 43 (Financial Instruments).

## **11. 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

## **11. Financial Instruments continued**

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 CIES 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 CIES is the amount receivable for the year in the loan agreement.

### **Soft Loans**

Soft loans are loans made to third parties at less than market rates. These loans are often made for the purposes of supporting voluntary organisations, or for the purposes of economic development. The difference between the market rate and the rate at which the loan is given is adjusted through the Comprehensive Income & Expenditure Statement with the impact of this reversed through the Financial Instrument Adjustment Account.

### **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 CIES. Any gains and losses that arise on the de-recognition of the asset are credited/debited to the CIES.

### **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 CIES 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 CIES 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 and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the

## **11. Financial Instruments continued**

CIES. 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 CIES 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 CIES, 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 CIES 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 5).

## **12. 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.

Amounts recognised as due to the Council are not credited to the CIES until conditions attached to the grant or contributions have been satisfied. Conditions are stipulations that specify that future economic benefits or service potentials embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or returned to the payer.

Monies advanced as grants and contribution for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non-specific Income and Expenditure (non-ringfenced grants) in the CIES.

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.

## **13. 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.

#### **14. 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 2017/18.

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.

#### **15. 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.

#### **16. Jointly Controlled Operations and Assets**

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the CIES with its share of expenditure and income from the activities of the operation.

#### **17. Leases**

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

A finance lease is one where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of property, plant or equipment from the lessor to the lessee.

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

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

## 17. Leases continued

### *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 General Fund 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 holds assets under a finance lease the relevant assets are recognised as assets and added to the non-current assets on the Balance Sheet at the fair value measured at the lease inception (or the present value of minimum leases payments, if lower). The 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.

## **18. Overheads and Support Services**

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

## **19. Property Plant and Equipment**

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

### *Recognition:*

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it yields benefits to the Council and the services. This 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.

### *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 – current 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 current value measurement.
- Infrastructure assets, Community assets and Assets under Construction – depreciated historic cost or nominal value in the main. A few are subject to current value measurement.

## 19. Property Plant and Equipment continued

- All other assets - current 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 current 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 current 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<sup>st</sup> 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 the other operating expenditure line in the CIES.



## 19. Property Plant and Equipment continued

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 1<sup>st</sup> 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.



## 19. Property Plant and Equipment continued

Depreciation is calculated on the following bases:

- Council dwellings – dividing the buildings element of the valuation (i.e. current less an adjustment for social housing) by the residual life (25-75 years) of the property.
- Other buildings - straight-line allocation over the life of the property as estimated by the valuer.
- Vehicles – on a straight-line basis over 5-7 years.
- Plant and Equipment – straight-line over the estimated life of the asset.
- Infrastructure – straight-line allocation over 40 years.

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

Depreciation is calculated on opening net book values and is based on the remaining useful life on the assets.

Schools:

Schools assets are included within the Council's Balance Sheet in line with the criteria for recognition of non-current assets set out in the Code of Practice. Consideration is given to the recognition of the assets on a school-by-school basis but in effect the assets of all schools run under the standard community schools model (including Voluntary Controlled schools) are recognised because the Council is both the legal owner of the assets and also the beneficiary of them in substance. Where the governance of the school differs from the community school model (for example Academies, Voluntary Aided and Foundation Trust schools), the Council considers whether it has effective control of the school's assets in respect of access to future economic benefits or service potential, and also its exposure to the risks of ownership. Where this is not the case, the assets are not recognised on the Council's Balance Sheet.

Where schools become Academies, the Council retains legal title to the assets of the school but transfers the economic benefits and service potential of those assets to the Academy by way of a long lease. The Council therefore derecognises those assets from its Balance Sheet in line with the Code of Practice's provisions on leasing.

## **Heritage Assets**

Heritage Assets 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, or more frequently if there is evidence of material changes in value.

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 paragraph 17 – 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 section 17 – Property, Plant and Equipment.

## **20. 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.

## **20. Private Finance Initiatives continued**

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.

## **21. 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.

## **22. Reserves**

The Council sets aside specific amounts as reserves 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 CIES. 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 assets, financial instruments, local taxation retirement and employee benefits and do not represent useable resources for the Council. These reserves are explained in further detail in Note 5 to the accounts.

## **23. 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 this no impact on the level of Council Tax.

## **24. 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.

### **Accounting standards issued but not adopted**

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

## **24. VAT continued**

Two new accounting standards have been issued but have not been adopted under the Code of Practice for 2017/18; IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. Both standards will apply under the Code of Practice for 2018/19, which takes effect from 1st April 2018. However, neither standard is expected to have a material impact on the Council's Statement of Accounts.

### **Other changes due to Annual Improvement to IASs**

The International Accounting Standards Board has an annual process for reviewing and improving its standards. There have been amendments to standards that have not yet been incorporated into the Code of Practice. These affect IAS 12 Income Taxes and IAS 7 Statement of Cash Flows. The impacts of these changes are not significant and are not expected to have a material effect on the Council's Statement of Accounts.

# LEICESTER CITY COUNCIL

## ANNUAL GOVERNANCE STATEMENT 2017-18

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### 1. Introduction

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

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

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

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### 2. The Arrangements

The Council works within the governance framework summarised in Appendix 1, and has an approved Local Code of Corporate Governance. The following details how the Council meets the requirements of the framework through the core principles, systems, policies and procedures it has in place.

**We have the following codes and rules:**

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

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

- Connecting Leicester
- Quality public transport
- Transforming the Waterside
- Increasing school places
- Attracting investment, jobs and skills

**The key pledges are supported by the following key plans:**

- Economic Action Plan
- Local Transport Plan
- Health and Wellbeing Strategy
- Sustainability Action Plan
- Children's Improvement Plan
- Heritage Action Plan
- Homelessness Strategy
- Air Quality Action Plan
- Flood Risk Management Strategy
- Departmental performance targets
- Budget Strategy
- Corporate Risk Management Strategy

**We monitor:**

- Delivery of the key plans and strategies
- Performance indicators, particularly in relation to children's and adult's social care
- Delivery of the Budget

**We are transparent in our decision making through:**

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

**We are supported by:**

- Democratic Services including Member and Civic Support Services, who also support member development
- An Organisational Development Team, who ensure effective development of employees

- A Communications function which includes PR, Media and Digital Media Teams
- A staff intranet and established internal communication channels, which provide guidance to staff
- Partnership working on key priorities
- An Information Assurance Team to support our data policies

**We review processes and delivery throughout the year supported by:**

- Internal Audit
- External Audit
- Information Governance
- Audit and Risk Committee
- Annual review of the Local Code of Corporate Governance
- Annual review of the Assurance Framework

Additional information on many of the areas detailed above can be found on the Councils website;  
[www.leicester.gov.uk](http://www.leicester.gov.uk)

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### **3. Significant Governance Issues**

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

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



## Follow Up of Issues Identified in 2016/17

Last year, the following areas were identified as significant governance issues. The table below sets out the action that has been taken to address these issues in the current year:

Issue Identified	Action taken to date:
<b>Medium Term Financial Strategy</b> - like all local authorities, the Council's financial viability is a key concern at a time of deep funding cuts.	A balanced budget has been agreed for 2018/19, and a further round of savings is planned for 2019/20 through the spending review programme. Budget performance is closely monitored.
<b>2015 OFSTED Inspection</b> – an inspection of Services for Children in Need of Help and Protection, Children Looked After, and Care Leavers graded Leicester's children's services as inadequate.	The Council continued with their improvement plan and were re-inspected during 2017 where the authority was rated overall as Requiring Improvement, with a judgement of Good for Leadership and Management and for Adoption. As a result of the Ofsted re-inspection in 2017, the council submitted a new action plan to Ofsted and the DfE in December 2017. Ofsted have acknowledged receipt and confirmed that the action plan addressed all the issues identified.

## Issues Identified in 2017/18

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

Issue Identified	Planned Action:
<b>Medium Term Financial Strategy</b> - like all local authorities, the Council's financial viability continues to be a key concern at a time of deep funding cuts.	The strategy is updated annually, and delivery of savings continually monitored.
<b>2015 OFSTED Inspection</b> – an inspection of Services for Children in Need of Help and Protection, Children Looked After, and Care Leavers graded Leicester's children's services as inadequate. A follow up inspection took place in 2017 which rated the authority as requiring improvement.	The improvement plan introduced in 2016/17 has been updated and will continue. This will be informed by peer reviews, service plans & the Local Children's Safeguarding Board business plan.

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#### **4. Conclusion**

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

**The Annual Governance Statement will be approved alongside the audited accounts in July 2018. At that time it will be signed by the City Mayor, Chief Operating Officer and Director of Finance. In this pre-audit Statement of Accounts the AGS is unsigned.**

## **Appendix 1**

### **KEY ELEMENTS OF THE COUNCIL'S GOVERNANCE FRAMEWORK**

Key elements of the governance framework at Leicester City Council are summarised below:

#### **Mayor, Executive and Council**

- Provide leadership, develop and set policy

#### **Decision making**

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

#### **Risk management**

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

#### **Scrutiny and review**

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

#### **Corporate Management Team**

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

## **SECTION 8 - GLOSSARY**

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

### **Academies**

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

### **Accountable Body**

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

### **Accounting Policies**

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

### **Accruals**

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

### **Actuarial Basis**

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

### **Amortisation**

The reduction in an amount carried on the Balance Sheet by the regular

debiting or crediting to an Income and Expenditure Account.

### **Appropriation**

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

### **Asset**

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

### **Assets Held for Sale**

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

### **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.

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

The principal accountancy body dealing with local government finance.

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

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

### **Collection Fund**

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

### **Community Assets**

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

### **Community Schools**

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

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

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

### **Contingent Liabilities**

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

### **Council**

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

### **Council Tax**

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

### **Council Tax Base**

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

### **Council Tax Precept**

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

### **Creditors**

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

### **Debits and Credits**

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

### **Debtors**

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

### **Dedicated Schools Grant**

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

### **Deficit**

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

### **Depreciation**

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

### **Direct Revenue Financing**

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

### **Equities**

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

### **Expenditure and Funding Analysis**

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

### **Fair Value**

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

### **Finance Lease**

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

### **Financial Instruments**

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

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

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

### **General Fund**

The Council's main revenue account, covering the net cost of all services other than Council housing.

### **Going Concern**

The going concern accounting concept assumes that the organisation will not significantly curtail the scale of its operation in the foreseeable future.

### **Government Grants**

Payment by Government towards the cost of local authority services. These are either for particular purposes or services (specific grants) or in aid of local services generally (formula grant).

### **Housing Benefits**

A system of financial assistance to individuals towards certain housing costs administered by local authorities and subsidised by central government.

### **Housing Revenue Account (HRA)**

A separate account to the General Fund which includes the expenditure and income arising with the provision of housing accommodation by the Council. The HRA is ring-fenced: no cross subsidy is allowed between the HRA and the General Fund in either direction.

### **Impairment Loss**

A material reduction in the value of fixed assets outside the normal periodic revaluations.

### **Internal Audit**

An independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation.

### **International Financial Reporting Standards (IFRSs)**

These are guidelines for the production of financial statements. Many of these now apply to local authorities and departure from these must be disclosed in the published accounts.

### **International Financial Reporting Interpretations Committee (IFRIC)**

Aims to provide guidance on newly identified financial reporting issues not specifically dealt with in IFRSs.

### **Inventories**

Comprises; goods or other assets purchased for resale; consumable stores; raw materials and components purchased for incorporation into products for sale; products and services in intermediate stages of completion, long term contract balances and finished goods.

### **Investments**

An asset which is purchased with a view to making money by providing income, capital appreciation or both.

### **Joint Venture**

An organisation for which the Council has partial control and ownership, but decisions require the consent of all participants.

### **Leasing**

A method of financing the acquisition of assets, notably equipment, vehicles and plant. This is normally for an agreed period of time, up to several years.

### **Liabilities**

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

### **LOBO Loans**

Lender Option, Borrower Option loans. This is a loan in which the lender can, at a predetermined time, request to change the interest rate at which the loan is being charged. If the borrower does not agree to the rate change, the borrower then has the option to repay the loan.

**Local Tax Reduction Scheme**

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

**Long Term Borrowing**

Loans raised to finance capital spending which have to be repaid over a period in excess of one year from the date of the accounts.

**Materiality**

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

**Minimum Revenue Provision (MRP)**

A minimum amount, set by law, which the Council must charge to the income and expenditure account, for debt redemption or for the discharge of other credit liabilities (e.g. finance lease).

**Movement In Reserves Statement**

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

**National Non-Domestic Rate (NNDR)**

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

**Net Book Value**

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

**Net Expenditure / Net Cost of Service**

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

**Non-Current Assets**

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

**Operating Lease**

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

**Operational Assets**

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

**Outflow**

This represents cash going out of the Council.

**Precept**

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

**Prior Period Adjustments**

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

**Private Finance Initiative (PFI)**

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

**Provision**

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



**Public Works Loan Board (PWLB)**

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

**Remuneration**

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

**Revaluation Reserve**

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

**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.

**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 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-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 Audit & Risk Committee**  
**13 June 2018**

**Report of Leicestershire County Council's Head of Internal  
Audit & Assurance Service**

**Internal Audit Service – Peer Review Outcome**

**Purpose of Report**

1. To inform the Audit & Risk Committee of the outcome of the recently conducted peer review of Leicestershire County Council's Internal Audit Service.

**Background**

2. Provision of an adequate and effective system of internal audit is the responsibility of the City Council (the Council). The function is delegated to the Director of Finance, who shall provide an internal audit service to the City Council in accordance with statutory requirements and professional standards.
3. In January 2017, the City Mayor delegated the Council's internal audit function to Leicestershire County Council and its Internal Audit Service (LCCIAS) led by the Head of Internal Audit Service (HoIAS). Since 23 November 2017, LCCIAS has provided internal audit to the Council.
4. The Council's Audit & Risk Committee (the Committee) fulfils the role of 'board' for the purposes of the Public Sector Internal Audit Standards (PSIAS). The PSIAS exist to promote continued improvement in the professionalism, quality and effectiveness of the internal audit function. Within its terms of reference, the Committee has a duty to monitor and assess the role and effectiveness of the internal audit function.

5. At its meeting on 21 March 2018, the Committee was informed that there is a PSIAS requirement that each internal audit function should be subjected to an external assessment of its overall conformance with the standards once every five years by a qualified, independent assessor or assessment team from outside the organisation. A review of Leicestershire County Council's Internal Audit Service (LCCIAS) was due to be carried out by the end of March 2018. The preferred option was for a self-assessment of conformance by LCCIAS with independent validation being carried out through a peer review.
6. Veritau Limited had been commissioned to undertake an independent validation of LCCIAS' self-assessment. Veritau is a local authority shared service company which provides internal audit and other governance related services to its member councils and other public sector organisations. Veritau is independent of Leicestershire County Council and has had no previous involvement with the provision of internal audit services at the council.

#### **Scope and methodology of the review**

7. The HoIAS and his team compiled a self-assessment against the PSIAS and submitted it along with supporting evidence to the review team, Veritau's Head of Internal Audit and his deputy, both very experienced internal auditors..
8. The review team were on site at County Hall for two days and conducted interviews with the County Council's Chair of the Corporate Governance Committee, the Chief Executive and six Directors. To establish the views from other organisations that LCCIAS provides service to, the reviewers also interviewed the Chief Fire and Rescue Officer and for the Council, the Head of Finance. In addition the HoIAS and seven LCCIAS staff were interviewed. At the end of the two days, verbal feedback was provided to the County Council's Director of Corporate Resources and the HoIAS.
9. Internal audit electronic work files were provided to allow the reviewers to evaluate consistency and diligence in processes.

#### **Outcome of the review**

10. The reviewer's draft report was received on 11 April 2018 and is contained as the Appendix. The HoIAS has shared the report with the County Council's Director of Corporate Resources and it will be accepted without alteration.

11. Paragraphs 15 to 17 of Veritau's report inform that, *'It is our overall opinion that Leicestershire County Council (Internal Audit Service) generally conforms to the Public Sector Internal Audit Standards, including the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics and the Standards. The review team found a number of areas of good practice as well as a number of areas which merit further attention. 'Generally conforms' is the **top rating** and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards'*.
12. It is pleasing to have received the top rating which will now be able to be quoted in internal audit documentation and communication. Nevertheless, the HoIAS will determine an action plan to improve those areas which Veritau has suggested merit further attention.

### **Resources Implications**

13. None

### **Recommendation**

14. That the Audit & Risk Committee reviews and notes the outcome of the peer review contained in Veritau's report

### **Equal Opportunities Implications**

15. There are no specific equal opportunities implications resulting from the peer review undertaken.

### **Background Papers**

Constitution of Leicester City Council  
The Public Sector Internal Audit Standards (revised from April 2017)  
Leicester City Council Audit & Risk Committee 21 March 2018

### **Officer to Contact**

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Leicestershire County Council		

### **Appendices**

Appendix LCCIAS – Outcome of Peer Review - April 2018





**SELF ASSESSMENT WITH EXTERNAL INDEPENDENT VALIDATION**

**LEICESTERSHIRE COUNTY COUNCIL**

**MARCH 2018**

## **Introduction**

- 1 In accordance with the UK Public Sector Internal Audit Standards,<sup>1</sup> the chief audit executive<sup>2</sup> must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity (performance standard 1300). The quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The quality assurance and improvement programme must include both internal and external assessments. An external assessment must be conducted at least once every five years.
- 2 There are two acceptable approaches to conducting an external assessment:
  - Full external assessment
  - Self-assessment with independent validation.
- 3 The availability and relevant experience of the assessor or assessment team, the likely cost, the potential for added value and lack of any real or apparent conflict of interest are all factors which should be considered in deciding which method to adopt.
- 4 Leicestershire County Council has chosen to appoint Veritau Limited to undertake an independent validation of its self-assessment. Veritau is a local authority shared service company which provides internal audit and other governance related services to its member councils and other public sector organisations. Veritau is independent of Leicestershire County Council and has had no previous involvement with the provision of internal audit services at the council.

## **Leicestershire County Council – Internal Audit service**

- 5 Leicestershire County Council maintains an in-house internal audit team. The team is managed by Neil Jones CPFA (Head of Internal Audit and Assurance) and comprises 15 staff (14.5 FTEs).
- 6 As well as the County Council, the team has provided internal audit services to the Leicestershire Pension Fund, Leicestershire Fire and Rescue Service and the Eastern Shires Purchasing Organisation (ESPO) for a number of years. Since November 2017, Leicester City Council has also delegated responsibility for the provision of internal audit to the County Council. As a result of this, four members of audit staff previously employed by the City Council were transferred to the County Council. Work is now ongoing to integrate working

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<sup>1</sup> Which reflect International Standards for the Professional Practice of Internal Auditing

<sup>2</sup> For LCC this is the Head of Internal Audit and Assurance



practices and systems across the two councils so that there is a common approach to internal audit provision.

- 7 Leicestershire County Council also provides internal audit services to a number of academy schools under contract.
- 8 The Head of Internal Audit and Assurance reports to the Director of Finance (s151 officer) at the County Council, Chris Tambini, and is supported by three audit managers who are responsible for overseeing the delivery of services and ongoing client liaison. As well as internal audit, the in-house team leads on risk management, insurance and counter fraud for the County Council. It also supports the preparation of the Annual Governance Statement. A number of staff within the team hold relevant qualifications and have expertise in these areas. The City Council continues to maintain a separate counter fraud team.
- 9 Audit Charters have been agreed for each client and these are regularly updated. Audit plans and the outcomes of internal audit activity are reported to the County Council's Corporate Governance Committee or the respective audit committee for the team's other clients.

### **Scope and Methodology of the Review**

- 10 This review was limited to the internal audit activities undertaken for the County Council and the team's other clients for internal audit services. The arrangements for delivering risk management, insurance and counter fraud services were considered to be out of scope. At the time of the review, internal audit services had only been provided to Leicester City Council for a few months and only limited progress had been made to integrate systems and working practices. In effect, the service to the City Council has continued to be provided in much the same way as it was before the delegation of responsibilities. This is therefore a period of transition for the internal audit service and this was recognised by the review team.
- 11 The review team examined the self-assessment document and associated evidence collated by the Head of Internal Audit and Assurance. The review team also undertook a limited review of recently completed audit files to compare actual practice with the professional practices and working protocols established by the team. The review considered audit planning, testing, reporting and follow up processes. Conformance with the Code of Ethics, the adequacy of training and development arrangements, the availability of specialist audit skills and the use of technologies were also considered.
- 12 The review team spent 2 days on site in Leicester during March 2018, interviewing internal audit staff and officers from the County Council and other clients. The chair of the Corporate Governance Committee was also interviewed. To assist and provide some structure to the interviews the review team circulated prompt sheets in advance of the visit. The questions included consideration of the overall benefits of internal audit, resource planning, strategic audit planning, the conduct of audit staff, the quality of audit reports, and whether the service was seen to add value to its client organisations. At

the end of the visit the findings and conclusions of the review team were reported to the Director of Finance and the Head of Internal Audit and Assurance.

### **Review Team**

- 13 The review team consisted of Max Thomas and Richard Smith from Veritau. Max Thomas is a Chartered Accountant (ICAEW) with nearly 30 years auditing experience of which over 20 years has been in local government. Max is the chief executive of Veritau. Richard has worked in the local government sector for over 20 years, including over 15 years in internal audit. Richard is the Deputy Chief Executive of Veritau and is a Chartered Public Finance Accountant (CPFA).
- 14 Veritau is a local authority controlled company which provides internal audit, counter fraud and other governance services to its six member councils and a number of other public sector bodies.

### **Overall Opinion**

- 15 It is our overall opinion that Leicestershire County Council generally conforms to the Public Sector Internal Audit Standards, including the *Definition of Internal Auditing*, the *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics* and the *Standards*.
- 16 The review team found a number of areas of good practice as well as a number of areas which merit further attention. Further details are provided below.
- 17 The guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards. 'Partially conforms' means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit service from performing its responsibilities in an acceptable manner. 'Does not conform' means the deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit service from performing adequately in all or in significant areas of its responsibilities. The full definitions are given at the end of this document.
- 18 The results of this review together with the quality assurance and improvement programme (QAIP) should be reported to senior management and the board<sup>3</sup>.

### **Areas of Good Practice**

- 19 The in-house audit team is well established and has an extremely good reputation with officers within the County Council and its client organisations.

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<sup>3</sup> The County Council's Corporate Governance Committee or relevant audit committee (for external clients).

The review team received consistently positive feedback about the team from senior managers and the chair of the Governance Committee.

- 20 The service has credibility and its recommendations and advice are valued by management. The service is focussing on the right areas and the annual audit plan is clearly aligned to the County Council's key risks and priorities. The team's wider responsibility for coordinating the council's risk management arrangements is beneficial in this respect. Plans also include an appropriate mix of compliance work and more forward looking strategic type audits.
- 21 The auditors conduct themselves in a professional manner, display knowledge of the areas they are auditing, adopt a flexible approach and are seen to be responsive to the needs of the client. Client officers reported that the internal audit team is also not afraid to raise issues of concern and to provide challenge to management.
- 22 The audit team is well resourced and the auditors take pride in the work they do. IT audit capability is strong and the team is very stable which offers good continuity. Audit assignments are appropriately planned and the testing is directed to those areas of greatest importance. Audit reports are balanced, and an executive summary has recently been added to the standard report format. Client officers are therefore better able to focus on the key issues. Client officers also feel able to question and challenge findings and recommendations where appropriate.
- 23 High priority recommendations are systematically followed up and the results are reported to the County Council's Corporate Governance Committee or audit committee as appropriate.
- 24 The service is endeavouring to develop a number of areas to help support its future work, including more use of computer assisted audit techniques (CAATS) and assurance mapping.

#### **Areas which Merit Further Attention**

- 25 The following are highlighted as areas which may merit further attention by the Head of Internal Audit and Assurance:
  - The self assessment has recently been updated but would still benefit from more detailed commentary and, in some areas, the evidence provided to demonstrate conformance with PSIAS was insufficient for the purpose.
  - The Audit Manual needs to be updated to reflect approved working practices and to ensure policies and procedures are properly communicated to the team. The review team recognise that the service is currently going through a period of transition and may therefore wish to delay this until the planned changes to systems and processes have been completed.

- Linked to this, steps should also be taken to improve the consistency of working papers and the approach to documenting work.
- Senior managers welcomed the recent addition of an executive summary to the audit report format. The service should however undertake a further review of the overall report format to ensure it continues to meet the needs of stakeholders.
- Whilst there are benefits from the team having responsibility for other governance related activities it is important that there are also appropriate safeguards to internal audit independence and objectivity. These arrangements should be more clearly communicated to the Corporate Governance Committee and other audit committees, and be kept under review in order to reduce the risk of impairment.
- Consideration should be given to developing competency profiles for each grade of auditor to help structure future training and development.
- Key performance measures should be defined and appropriate targets set with each client to help measure the efficiency and effectiveness of the service.
- Feedback on the quality of the overall service should be requested periodically from key stakeholders (including senior officers and audit committee members).
- Whilst the follow up of high priority audit recommendations is effective there is scope to adopt a more systematic approach to the follow up of other recommendations.
- Steps should be taken to promote the availability of Internal Audit as a source of strategic advice and support, and hence further raise the profile of the service.
- The team should continue to develop its use of data analytics to enable the increased use of whole population testing and continuous auditing.
- Consideration should be given to including a disclaimer on the Terms of Reference and standard report format used by the service.
- As the team expands its client base consideration should be given to further developing its agile working practices.

Max Thomas

11 April 2018

## **Attachment A - Definitions**

“Generally Conforms” means the assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformity to the others, within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, “successful practice,” etc.

“Partially Conforms” means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

“Does Not Conform” means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity’s effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.





**Leicester City Council Audit & Risk Committee**  
**13 June 2018**

**Report of Leicestershire County Council's Head of Internal  
Audit & Assurance Service**

**Internal Audit Service – Annual Plan 2018-19**

**Purpose**

1. To provide the Audit & Risk Committee (the Committee) with an indication of internal audit work planned to be conducted during 2018-19.

**Background**

2. Part 2, 'Internal Control' of the Accounts and Audit Regulations (2015) provides at section 5 'Internal Audit' that, 'a relevant authority (Leicester City Council – 'the Council') must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes. In January 2017, the City Mayor agreed to delegate the Council's internal audit function to Leicestershire County Council.
3. Leicestershire County Council Internal Audit Service (LCCIAS) conforms to the United Kingdom Public Sector Internal Audit Standards (PSIAS) revised in April 2017, and guidance provided by the accompanying CIPFA Local Government Advisory Note (LGAN).
4. The PSIAS require the Head of Internal Audit Service (HoIAS) to form an annual opinion on the overall adequacy and effectiveness of the Council's control environment (its framework of governance, risk management and control). In order to form an opinion, the scope of internal audit work needs to be wide. The PSIAS require the HoIAS to prepare a risk based internal audit plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.
5. Within its Terms of Reference the Committee has a duty to consider, challenge and approve (but not direct) Internal Audit's strategy and plan and monitor performance on an annual basis. The Committee is

designated as 'the Board' in the Council's Internal Audit Charter (revised March 2018).

### **Planning methodology**

6. The provision of a risk based internal audit plan (the Plan) consistent with the Council's goals is an essential part of ensuring probity and soundness of the Council's governance framework, risk exposure and internal controls. The Plan has been devised to ensure that it delivers against the PSIAS i.e. that the internal audit activity must: -
  - a. assess and make appropriate recommendations to improve the Council's governance processes (including ethical and information technology governance).
  - b. evaluate the effectiveness and contribute to the improvement of risk management processes, and,
  - c. assist the Council in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement
7. Governance is defined in PSIAS as, '*The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives*'. Amongst a wide range of governance themed audits, the HoIAS plans to undertake audits of the components of the Assurance Framework (and in particular where other sources of assurance can be relied upon when forming the annual internal audit opinion); the composition of the Annual Governance Statement; adherence to and monitoring of the Employee Code of Conduct; Information Governance strands and assist with a review and revision of the Audit & Risk Committee's Terms of Reference.
8. Risk management is defined in PSIAS as, '*A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives*'. The PSIAS advise that when constructing the Plan, the HoIAS should take into account the risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. The Council's Corporate Management Team has responsibility for identifying and managing risk and, the design, implementation and operation of robust internal control systems. The HoIAS undertook a desktop evaluation of the Council's Corporate Risk Management Policy Statement and Strategy (2018) and found it to be in line with those at other local authorities. A specific audit is planned in order to provide assurance that the risk management policies and procedures are fit for purpose and being consistently applied allowing for an evaluation of the Council's current level of risk maturity. A wide range of other risk management themed audits are also planned which map to a number of the Council's Strategic and Operational Risks.



9. Internal Control is defined in PSIAS as, *'The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organisation is willing to accept'*. Part of the Plan requires annual audits on key elements of the significant financial and IT systems. These audits are often used by the Council's External Auditors to assist their risk appraisal before auditing the financial statements. A discussion will be held with the incoming External Auditors Grant Thornton to understand how best this may work. Other significant projects including ICT and information governance developments are targets for audit. A range of grant certifications fall in this category.
10. A contingency is retained for consulting (advisory), unforeseen risks, special projects and investigations and an allocation is reserved for the HoIAS' role in governance requirements (attendance at committees, form opinions and reports etc).
11. To further develop the scope of audit coverage, the HoIAS researches and evaluates where other/additional risk might occur to the Council using methods including: -
  - a. Consulting on emerging risks, planned changes and potential issues with the Corporate Management Team, the Head of Finance and the External Auditor
  - b. Evaluation of wider governance arrangements e.g. plans, committee reports, consultations and accounts
  - c. Comparisons against similar Councils' audit plans
  - d. 'Horizon scanning' new and emerging risks from professional and industry sources
  - e. The risks to critical 'business as usual' systems when focus or attention shifts to new projects or issues

### **The Internal Audit Plan 2018-19**

12. The attached Plan for 2018-19 (Appendix) contains a wide scope of audits that should allow the HoIAS to form an opinion on the overall adequacy and effectiveness of the Council's control environment. It is comparable to the risks affecting other local authorities and contains risks highlighted by internal audit and risk management professionals.
13. Most planned audits undertaken are of an 'assurance' type, which requires undertaking an objective examination of evidence to reach an independent opinion on what assurance can be given that risk is being sufficiently mitigated. There are usually four levels: full; substantial; partial; and little. 'Partial' ratings are normally given when the auditor has reported at least one high importance recommendation. These recommendations are reported in summary to this Committee and will stay within its domain until the HoIAS is satisfied that action has been implemented (usually after a follow up audit has been conducted).

Occasionally, the auditor might report a number of recommendations that individually are not graded high importance but collectively would require a targeted follow up to ensure improvements have been made.

14. The Committee has a duty to review and challenge management's responsiveness to the internal audit findings and recommendations, seeking assurance that appropriate action has been taken where necessary and agreed recommendations have been implemented within a reasonable timescale.
15. LCCIAS also undertakes consulting/advisory type audits .Examples include advice, commentary on the effectiveness of management's intended control design and framework and potential implications of changes to/implementations of new systems, processes and policies.
16. Unplanned 'investigation' type audits may need to be undertaken. A small amount of resource will be required to finalise 2017-18 audits.
17. Within the Appendix: -
  - a. Column one shows indicative dates for the audit although these may change in discussion with management. Also, although the review of the Plan was postponed from the 23 March Committee, column one shows that work is already underway and in some cases completed.
  - b. Column two indicates which component of the control environment (governance, risk management or internal control) the audit primarily matches. There is quite often overlap.
  - c. Columns three and four show the audit category and audit name respectively
  - d. Column five shows where the HoIAS has tried to map audits against entries in the Council's risk registers either strategic (SRR) or operational (ORR)
  - e. Column six shows an indicative scope of the audit although this is usually firmed up with management before the audit engagement
  - f. Column seven contains a rationale for including an audit in the Plan. The reference to 'professional internal audit or risk management guidance', comes from a combination of the HoIAS monitoring emerging audit/risk advice and from his contacts with other HoIAS in Midlands and National networks.
18. The 2018-19 plan aims to give the optimum audit coverage within the resources available. Though it is compiled and presented as a plan of work, it must be recognised that it is only a statement of intent, and there is a need for flexibility to review and adjust it as necessary in response to changes, particularly in line of: -
  - a. continuing uncertainties presented by the severe pressures the Council faces.

- b. the potential for priorities and associated risks to change during the year, such that the focus of audit effort in any particular area may change
  - c. the potential for change in the Council's organisational structures and management responsibilities.
19. The HoIAS will discuss and agree any material changes with the Head of Finance and if required members of the Corporate Management Team and these would be reported to the Committee.
20. Detailed Terms of Engagement covering each audit's scope and any areas for exclusion are agreed with the relevant risk owners in advance of each audit.

### **Progressing the Audit Plan**

21. Responsibility for the evaluation and management of risk and the design and consistent operation of internal controls rests with the Council's management. LCCIAS' role and responsibility is to carry out independent and objective audits and give an opinion on the extent to which risk is being managed and (where appropriate) make recommendations to improve controls.
22. On completion of each audit, findings will be discussed with the appropriate risk owner before issuing a draft report including to the Head of Finance. Final reports will be sent to Directors.
23. The HoIAS will meet with the Head of Finance to discuss progress and any issues arising each quarter. A progress report containing audits completed and summaries of any 'high importance' recommendations will be brought to each Committee.

### **Resource Implications**

24. The Council pays for LCCIAS to provide its internal audit activity

### **Equal Opportunities Implications**

25. There are **no specific** equal opportunities implications contained within the annual summary of work undertaken

### **Legal Implications**

26. There are no direct 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.

## **Recommendations**

27. The Audit & Risk Committee is recommended to: -
- a. Receive the report, note its contents and seek clarification on any areas of the plan as they wish and then approve the plan.
  - b. Make any recommendations or comments it sees fit either to the HoIAS or Director of Finance.

## **Background Papers**

The Constitution of Leicester City Council  
Accounts and Audit Regulations (Amendment) 2015  
The Public Sector Internal Audit Standards (revised from April 2017)  
Leicester City Council Internal Audit Charter (March 2018)

## **Circulation under Sensitive Issues Procedure**

None

## **Officer to Contact**

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## **Appendix**

Internal Audit Service - Annual Plan 2018-19

Quarter	CE	Audit Plan Category	Audit Name	RR	Scope	Rationale for inclusion
Q1 - work undertaken to close off 2017-18 work	ALL		<u>Draft Reports:</u> Schools - Medway - catering, invoicing and governance issues Payroll migration;  <u>Final Reports:</u> Westgate School KYB MFS - Cash & Cash Equivalents; MFS - Capital Additions Sports Centre Cash Audits - New Parks LC & Leicester Leys LC: Direct Payments Cards - follow up;			
Q1 - work underway 211	IC	Contract & Procurement	Waterside Strategic Regeneration Programme		As part of the Waterside strategic regeneration programme, the Council has paid out substantial sums for land acquisition. Independent assurances required by management that due processes and procedures were followed in these acquisitions.	Head of Finance request
Q1 - ToR agreed - work underway	G	Governance	Better Care Fund (BCF)		To give assurances to management that the Better Care Fund Plan is appropriately approved, is being effectively delivered and financially managed and that there is robust oversight of the BCF Plan by an appropriate governance stream.	Director Assurances required/Concerns 2018-19
Q1 - planning stage	IC	Contract & Procurement	BIFFA waste		DEFRA carried out a review (excluded financials) and issued an action plan in early 2016. This is a follow-up of the recommendations made in the report and will also include the financial processes for collection of income.	Director Assurances required/Concerns 2017-18
Q1 - ToR agreed - work underway	IC	Significant Financial Systems	Fleet & Passenger Transport		Management requires assurances that there are robust process in place for the fleet disposals.	Director Assurances required/Concerns 2017-18
Q1 - work underway	G	Significant Financial Systems	School Admissions		To provide assurance on whether the admissions process for in-year applications is operating satisfactorily to ensure that children do not remain unplaced for substantial periods.	Director Assurances required/Concerns 2017-18

Quarter	CE	Audit Plan Category	Audit Name	RR	Scope	Rationale for inclusion
Q1 - ToR work underway	IC	Contract & Procurement	Arcadis	ORR	Assurances required that Arcadis contract is used in line with procurement guidelines, whilst also ensuring in-house technical services are utilised before calling upon Arcadis.	Director Assurances required/Concerns 2017-18
b/fwd	IC	IT & Information Assurance	Northgate	ORR	Business area were concerned that this is a key element of their channel shift activity, so need to ensure right controls are in place.	Director Assurances required/Concerns 2017-18
b/fwd	IC	Significant Financial Systems	Road Safety Partnership		Assurances required that the processes and procedures for allocating the income generated from the Safety Cameras scheme is robust	Director Assurances required/Concerns 2017-18
Q1 - complete	IC	Grant Certifications	Growth Point Capital		Leicester City Council is the Accountable body - finalising the claim for the grant.	Certification Requirement
Q1 - work underway	IC	Schools	Schools Financial Audits		This includes a programme of schools audit. It will include a combination of primary,secondary and special schools - in total 6 schools will be covered.	Audit requirement under Council's statutory Scheme for Financing
Q1 - work underway	IC	Grant Certifications	Blueprint		The lease agreement between LCC and Blueprint requires an audit of the charges within 3 months from the year-end (31/03/2018).	Certification requirement
Q1 - complete	IC	Grant Certifications	Growth Hub		Audit in line with grant determination Deadline 25.05.2018	Certification requirement
Q1- work underway	IC	Grant Certifications	SET-UP		SET-UP is an Interreg Europe project. Audit in line with grant determination. This is covers the period Oct 2017 to Mar 2018. Audit in line with grant guidance. Deadline 30.06.2018	Certification requirement
Q1- work underway	IC	Grant Certifications	Troubled Families		This is fourth year of the programme and management are expecting a higher number of claims and, therefore. Six audits have been requested in 2018-19. Verification of results from claims with reference to the Financial Framework for the programme.	Certification requirement

Quarter	CE	Audit Plan Category	Audit Name	RR	Scope	Rationale for inclusion
Q1-Q4 - workunderway, two completed	IC	Cash Audits & Establishment	Cash Audits		Programme of regularity/cash audits - These are mostly unannounced visits to establishments which collect income, primarily in cash.	Director Assurances required/concerns
Q1-Q4	IC	Significant Financial Systems	Tech One		Replacement of the MFS (Agresso ), anticipated to go live in April 2019. Ad hoc advice and assistance, up to go live date combined with sample testing, which could include data transfer.	New Significant System
Q1-Q4	G	Contract & procurement	Contract & procurement	SRR	<p>Audits covering the Council's corporate procurement and contracts process. These will seek to identify whether due process has been followed and value for money has been sought. This could include for example :</p> <ul style="list-style-type: none"> <li>- Facilities management related services</li> <li>- Contractors compliance of living wages</li> <li>- Waiver &amp; exemption process</li> <li>- Follow up of recommendations made in earlier contract audit reports e.g. Property Services Contract Audit</li> </ul> <p>Exact scope to be agreed with Head of Procurement</p>	Director Assurances required/Concerns 2018-19
Q2	IC	Grant Certifications	Local Transport Capital Block Funding		<p>The Government is providing capital funding for local transport from a number of different capital funding grants in 2017/18. Three separate certification is required which is in line with the grant conditions.</p> <p>Deadline: 30th September 2018</p>	Certification requirement
Q2	IC	Grant Certifications	BSOG		<p>Local Authority Bus Subsidy Ring-Fenced (Revenue) Grant(31/3082). Certification is required in line with the Grant conditions.</p> <p>Deadline: 30th September 2018.</p>	Certification requirement
Q2	IC	Grant Certifications	SEEV4		<p>SEEV4 is an Interreg project co-funded by the North Sea Region Programme</p> <p>Grant claim in line with the European funding guidelines</p> <p>Claim will cover 12 months to 30.09.2018</p> <p>Deadline 30th November 2019</p>	Certification requirement

Quarter	CE	Audit Plan Category	Audit Name	RR	Scope	Rationale for inclusion
Q2	IC	Grant Certifications	Disabled Facilities Capital Grant		Integration and Better Care Fund: The Disabled Facilities Grant(31/3059) Certification in line with the Grant Determination 2017/18. Deadline: 31st October 2018	Certification requirement
Q2	IC	Grant Certifications	Leaseholder Accounts		The annual accountants certificate of compliance relating to LCC's Leaseholder accounts - for those holding a Designated Reserve Fund (DRF).	Certification requirement
Q2-Q4	IC	Significant Financial Systems	Major Financial Systems Audit		As part of the MFS Audit, IAS have annually covered the following areas as part of the joint protocols with the external auditor. 1.Financial reporting 2. Cash & cash equivalent 3. Housing Rent Accounts 4. Capital Additions & disposals 5. NNDR& CT 6. Payroll However, following the change in the External Auditor the exact scope will be agreed with the Director of Finance & Chief Accountant, taking account of the risks and priorities at the time.	Directors Assurances required
Q3	IC	Grant Certifications	School Centred Initial Teacher Training (SCITT)		This audit is done at the request of the City's lead school for the SCITT process. Grant Certification in line with funding guidance, for year ending 31st July 2017	External Audit Certification
Q3	IC	Significant Financial Systems	Concerto - Accounts Payable		Assurances required the controls for processing of invoices within Estates & Building Services, which uses the concerto system, are operating soundly.	Director Assurances required/concerns
Q1-Q4	N/A	Follow-up	Follow-up		Routine follow-up of audit recommendations, particular emphasis on the High Priority Recommendations.	Director Assurances required



Quarter	CE	Audit Plan Category	Audit Name	RR	Scope	Rationale for inclusion
Q3	G	Follow-up	Property Services Contract Audit - follow up		This is a subsequent audit to the follow-up undertaken in 2017-18. As a number of divisional changes were taking place at the time of the last audit; it was agreed with management that a further audit will be under taken in the 2018-19, to allow management time to put processes and procedures in place in line with the recommendations.	Director Assurances required
Q2-Q4	R	Risk Management	Risk Management Framework		The objective of the audit is to provide assurance that the risk management policies and procedures are fit for purpose and being consistently applied allowing for an evaluation of the Council's current level of risk maturity.	PSIAS requirement and Professional internal audit or risk management guidance
Q1-Q4	G	IT & Information Assurances	Information Governance	SRR	To include audits relating to : - Preparations for the adoption of GDPR - Information security especially in mobile working - Information retention and disposal	PSIAS requirement and Professional internal audit or risk management guidance
Q1-Q4	RM	IT & Information Assurances	Cyber security	SRR	A range of areas to be further discussed with management but could cover firewalls and gateways; configurations; access control; malware protection and patch management	Professional internal audit or risk management guidance
Q3	RM	Schools	Schools in Deficit		Increasing budget pressures has resulted in schools falling into deficit positions. This audit will examine the council's process for identifying, monitoring and controlling school deficits.	Head of Finance request and nationwide iddue
Q4	G	Governance	Affordable Homes		Leicester's City Mayor has announced plans for the city council to set up its own housing company to build 50 new homes this year. The exact scope has yet to be agreed, but it could include governance and financial management.	High media attention

Quarter	CE	Audit Plan Category	Audit Name	RR	Scope	Rationale for inclusion
Q3-Q4	G	Governance	Stores Outsourcing		In March 2016 the executive decided to move to a managed service for housing and highways, with an external provider delivering the stores service on the council's behalf . The procurement process is in progress. The exact scope is yet to be confirmed, but it could be in the form of adhoc advice during the implementation stage. Post implementation - ensuring there are robust controls for ordering materials and reconciliation procedures to ensure the Leicester City Council interests are protected.	Head of Finance
Q1-Q4	IC	Compliance Audits	Control Testing		As the Council becomes smaller and teams become smaller, there is a risk that controls are compromised or the controls are revised which could increase the risk of fraud and error.	Head of Finance
Q2	IC	Significant Financial Systems	City Catering		City Catering are the school meals provider for a majority of the schools within the city of Leicester. Assurances required that the procedures for collection and accounting for catering income are robust.	Head of Finance and issues at a school site
Q2	RM	Risk Management	Fire risk in owned and occupied buildings	SRR	To give assurances that fire safety measures across all relevant LCC building scenarios are being thoroughly evaluated	Nationwide issue and Professional internal audit or risk management guidance
Q1-Q4	G	Governance	Assurance Framework		To identify (map) who provides assurance for high priority, key risks, recognising any gaps and overlaps and review the reliability of assurance using agreed criteria	Professional internal audit or risk management guidance
Q3	G	Governance	Annual Governance Statement		Review the process followed to compile the AGS to ensure it is compliant with CIPFA/SOLACE 'Delivering Good Governance Framework' (2016)	CIPFA and Professional internal audit or risk management guidance

Quarter	CE	Audit Plan Category	Audit Name	RR	Scope	Rationale for inclusion
Q2	G	Governance	Employee Code of Conduct		Review the adequacy of guidance and frameworks in place, related methodologies to manage and monitor ethical performance and review the effectiveness of compliance.	Professional internal audit or risk management guidance
Q2	G	Governance	Audit & Risk Committee - Terms of Reference		To assist with the review (and where appropriate) revision of the Committees Terms of Reference in light of CIPFA's revised guidance on Audit Committees (2018)	CIPFA guidance
Q2-3	IC	Significant Financial Systems	Resource Allocation (adults and children's)	ORR	To ensure resources are matched to eligible needs to protect funding and regular package reviews occur.	Nationwide issue
Q2-3	IC	Contract & Procurement	Payments to residential providers (adults and childrens)	ORR	Review efficiency of process for paying providers, accuracy of invoices and due diligence.	Nationwide issue
Q2	RM	Risk Management	Deprivation of Liberty Safeguards	ORR	Process review to determine control environment compliance with legislative requirements and timelines in light of a national trend of escalating applications.	High risk not moving - could incur £m - nationwide issue
Q2-4	G/RM	Risk Management	Planning for Brexit	SRR	That the broad range of issues and risks for the Council, its staff, partners, service users and other stakeholders is being considered and planned for.	Nationwide issue and Professional internal audit or risk management guidance
Q2	IC	IT & Information Assurances	Liquidlogic Social Care System	ORR	Development and enhancements and health and social care IT integration	Key significant system

Quarter	CE	Audit Plan Category	Audit Name	RR	Scope	Rationale for inclusion
Q2-4	IC	IT & Information Assurances	Data analytics		Exploration with management where Internal Audit Service can use its analytical tool IDEA to increase efficiency and effectiveness and provide improved assurance and greater audit coverage	Professional internal audit or risk management guidance
Q2	IC	IT & Information Assurances	Information Security Risk Assessments	ORR	With the increase in mobile technology, assurances that personal and sensitive information is securely held. For example : Tablets and laptops to be used in housing operations; rents self serve paperless direct debits	High risk not moving - nationwide issue
Q2-3	IC	Significant Financial Systems	Payroll and HR System	ORR	Continue advisory and testing implementation and development and effect on control environment	Key significant system
Q3	IC	Contract & Procurement	Agency social work staff	ORR	Containing agency costs	Nationwide issue
Q2	G	Workforce	IR 35		Review of the processes and guidance available to support compliance with IR35 requirements	Nationwide issue and Professional internal audit or risk management guidance
Q2-3	RM	Workforce	Staff absence	ORR	To give assurance that cases are managed consistently and approach is robust	Nationwide issue
Q2-4	RM	Workforce	Workforce Planning	SRR	To assess whether HR risk is being effectively managed and provide assurance that the organisation's workforce planning strategy is in line with its strategic vision.	Nationwide issue and Professional internal audit or risk management guidance

Quarter	CE	Audit Plan Category	Audit Name	RR	Scope	Rationale for inclusion
Q2-3	IC	IT & Information Assurances	Public Health	ORR	Assurance over the system procured to extract information from GP systems to ensure accurate payments are made	New Significant System
Q3	G	Contract & Procurement	Public Health	ORR	Substance misuse contract management is robust	Payment by results contract risks
Q2	RM	Contract & Procurement	Public Health		Identification of all public health contracts to provide a baseline and comprehensive contract register.	Payment by results contract risks
Q4	RM	Contract & Procurement	Commissioning (general)	SRR	Effective use of market intelligence and research to secure services that most appropriately address the needs of the service / user	Nationwide issue and Professional internal audit or risk management guidance
Q3	RM	IT & Information Assurances	Remote access		Remote access to networks and data by users and suppliers. Include laptops, smartphones, data storage devices, BYOD.	Nationwide issue and Professional internal audit or risk management guidance
Q3	IC	IT & Information Assurances	Digital Transformation Projects	SRR	To ensure control environments remain robust during high speeds of change	Nationwide issue and Professional internal audit or risk management guidance
Q3-4	G/IC	IT & Information Assurances	Key ICT Controls	SRR	To provide assurance that the ICT infrastructure is robust and that the range of IT controls are well designed and consistently applied. This audit reviews the integrity of the ICT infrastructure and associated applications that either directly or indirectly contributes to the production of the financial statements	

Quarter	CE	Audit Plan Category	Audit Name	RR	Scope	Rationale for inclusion
Q1-Q4	ALL		Client responsibilities		To include research of risk and provision of advice; liaison with External Auditor; HoIAS professional responsibilities; preparation for and attendance at A&R Committee and any other meetings required	

**AUDIT & RISK COMMITTEE 2018-19 - ANNUAL TIMETABLE**    This version 04/06/2018

	Author	Notes, frequency	Purpose
<b>13 June 2018</b>			

External Audit Plan 2017/18	KPMG, External Auditor	Annual	Committee to Note
External Auditor's Annual Audit Fees Letter 2018/19	Grant Thornton, incoming auditor	Annual	Committee to Note
The Council's Annual Governance Statement 2017-18 (draft)	Director of Finance/Monitoring Officer	Annual	Committee to note
The Statement of Accounts (draft)	Director of Finance Chief Accountant	Annual	Committee to note
Internal Audit Service – Peer Review Outcome	Head of Internal Audit	One-off	Committee to note
Internal Audit Plan 2018/19	Head of Internal Audit	One-off	Committee to note
Annual Timetable of Reports to the Committee	Head of Finance	Annual	Committee to note
<b>Private Session:</b>			
Internal Audit Service 2017/18 Q4 update	Head of Internal Audit	Periodic	Committee to note
Internal Audit Service – Annual Report 2017/18	Head of Internal Audit	Annual	Committee to note

**AUDIT & RISK COMMITTEE 2018-19 - ANNUAL TIMETABLE    This version 04/06/2018**

<b>25 July 2018</b>			
<i>Training Session Prior to Main Meeting: Topic TBA</i>			
Annual Governance Report - 'ISO 260 Report to Those Charged with Governance', including audit opinion on the Financial Statements and VFM conclusion	KPMG, External Auditor	Annual	Approval
The Council's Annual Governance Statement 2017/18	Director of Finance/Monitoring Officer	Annual	Approval
The Statement of Accounts and Letter of Representation 2017/18	Director of Finance Chief Accountant	Annual	Approval
Policy for Engagement of External Auditors for Non-Audit Work and External Audit of Grant Claims	Head of Finance	Annual	Approval
Housing Benefits Assessments action plan progress	Head of Revenues and Benefits	One-off	Committee to Note
Regulation of Investigatory Powers Act 2000 - Bi-Annual Performance January 2018 – June 2018	Head of Information Governance and Risk	Bi-Annual	Committee to Note
Counter Fraud Annual Report 2017/18	Corporate Investigations Manager	Bi-Annual	Committee to Note
Risk Management Update	Manager, Risk Management	Periodic	Committee to note

<b>12 September 2018</b>			
<i>Training Session Prior to Main Meeting: Topic TBA</i>			
External Audit Annual Audit Letter	KPMG, External Auditor	Annual	Committee to Note
Audit & Risk Committee Terms of Reference	Head of Finance	Annual	Approval
Draft of the Committee's Annual Report to Council	Head of Finance	Annual	Approval
Internal Audit update	Head of Internal Audit	Periodic	Committee to note
Annual Report on the National Fraud Initiative	Corporate Investigations Manager	Annual	Committee to note
Review of the Anti-Fraud, Bribery and Corruption Policy and Strategy	Corporate Investigations Manager	Annual	Committee to Note
Complaints Process Annual Update	Head of Revenues and Benefits	Annual	Committee to note



**AUDIT & RISK COMMITTEE 2018-19 - ANNUAL TIMETABLE    This version 04/06/2018**

<b>27 November 2018</b>			
<i>Training Session Prior to Main Meeting: Topic TBA</i>			
Procurement Plan mid-year Update	Head of Procurement	Bi-Annual	Committee to note
Internal Audit up date	Head of Internal Audit	Periodic	Committee to note
Financial and Accounting Developments Update	Chief Accountant	Periodic	Committee to note
Counter Fraud mid-year Update	Corporate Investigations Manager	Bi-Annual	Committee to note
Risk Management Update	Manager, Risk Management	Periodic	Committee to note

<b>6 March 2019</b>			
<i>Training Session Prior to Main Meeting: Topic TBA</i>			
Annual Report - Certification of Claims and Returns (Grants)	KPMG, External Auditor	Annual	Committee to note
External Audit Plan 2018/19	Grant Thornton, External Auditor	Annual	Committee to note
Procurement Plan 2019/20	Head of Procurement	Annual	Committee to note
Regulation of Investigatory Powers Act 2000 - Bi-Annual Performance July 2018 – December 2018	Head of Information Governance and Risk	Bi-Annual	Committee to Note
Financial and Accounting Developments Update	Chief Accountant	Periodic	Committee to note
Risk Management Update	Manager, Risk Management	Periodic	Committee to note
The Assurance Framework on which we will base the Annual Governance Statement, including the annual review of Local Code of Corporate Governance	Chief Accountant	Annual	Approval
Internal Audit Update, including: - 2018/19 progress update - Internal Audit Plan 2019/20 - Annual Review of Internal Audit Charter	Head of Internal Audit	Annual	Approval

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