



Statement of Accounts

2017/18



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 31st 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

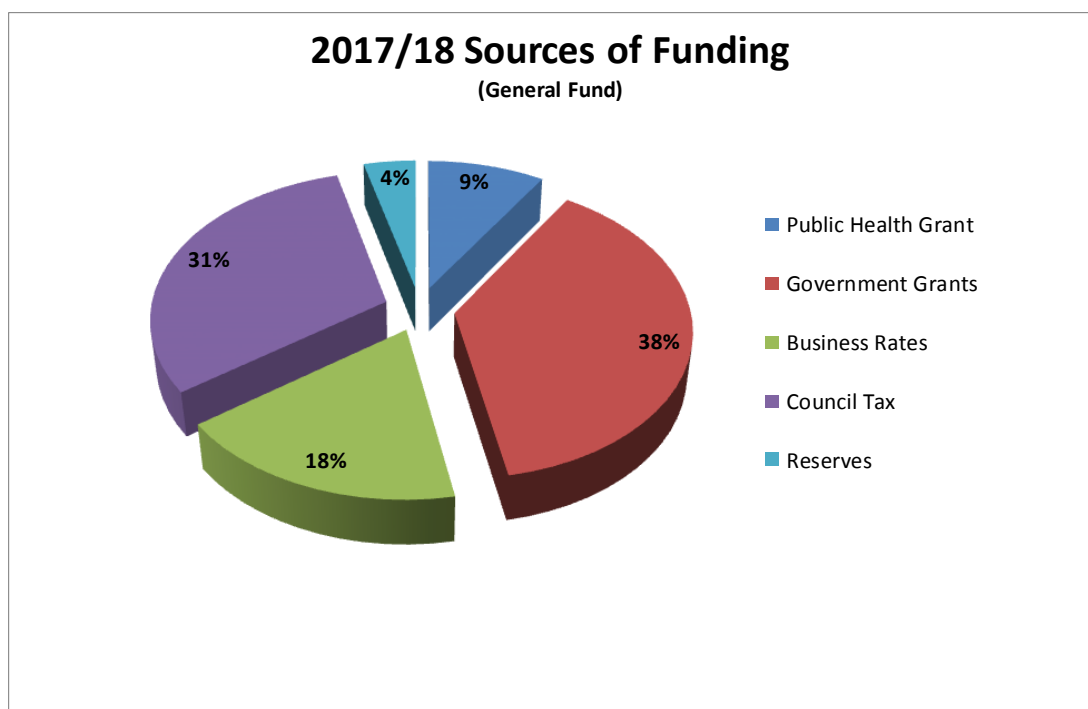
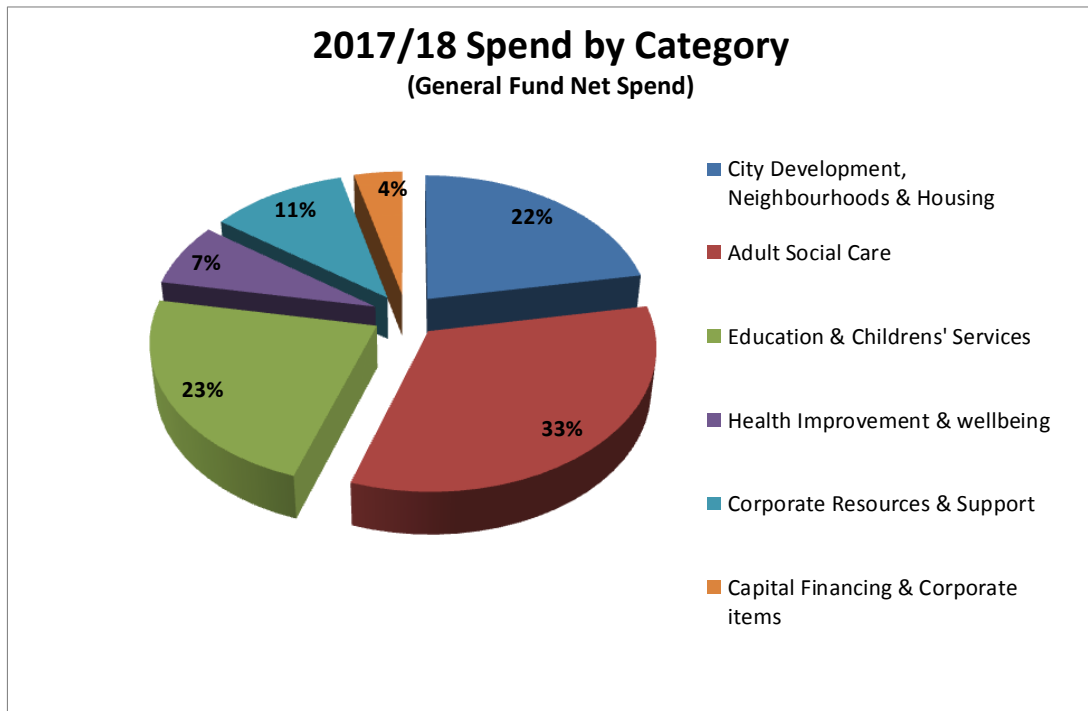
Local government is in the midst of the most substantial funding cuts ever experienced, as a result of the UK Government's programme to reduce the national spending deficit. It is difficult to calculate the amount of grant that the Council has lost due to changes in the system of funding local government 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 56% 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.



The Council's Revenue Outturn 2017/18 report can be found on the following link;
<http://www.cabinet.leicester.gov.uk:8071/documents/s93950/Revenue%20Budget%20Monitoring%202017-18%20Outturn.pdf>

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.

Capital Spend 2017-18		
Category	£m	Spend includes;
Planning, Development & Transport	24.4	Waterside Regeneration Area, City Centre street improvements, highways maintenance, transport improvement works.
Housing Revenue Account	18.0	Council housing improvements including environmental and communal works.
Schools	18.9	Primary and secondary school expansions, completion of the BSF secondary school initiative and schools maintenance works.
Tourism, Culture & Inward Investment	8.7	Leicester Market redevelopment, Haymarket Theatre investment, De Montfort Hall and museum improvements.
Estates & Building Services	10.4	Property Maintenance and office accommodation for inward investment / administration.
Neighbourhood & Environmental Services	1.0	Victoria Park and Saffron Hill Cemetery improvements and the remodelling of neighbourhood service buildings.
Housing General Fund	2.0	Disabled facilities grants, repayable home repair loans, acquisition of empty properties and Fleet vehicle additions.
Other	2.8	City Centre property acquisitions, improvements to Children's Residential Homes, Adult Social Care capital projects and ICT investment.
Sub total*	86.2	
Leicester & Leicestershire Economic Partnership	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.
TOTAL	101.4	

*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 31st 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

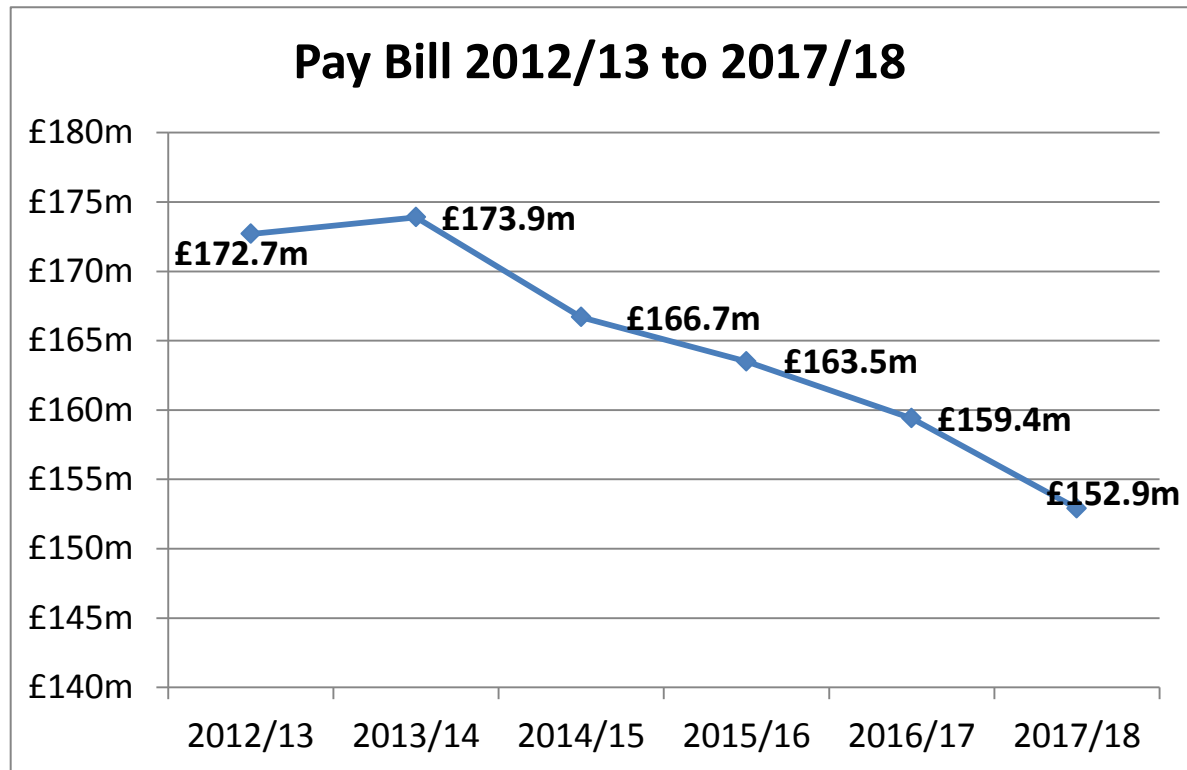
The City Council has some £234m of long term borrowing. Most of this results from a former government regime under which authorities received revenue support for borrowing to undertake capital projects. Support for such projects now takes the form of capital grants.

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.



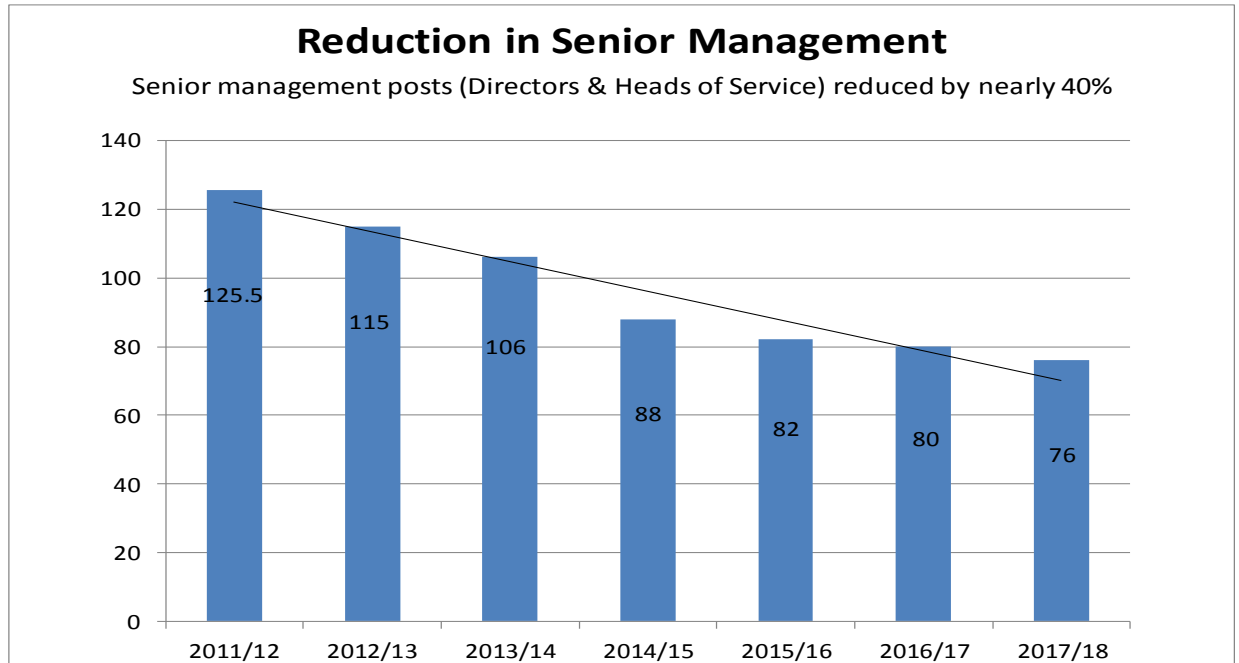
The pay bill excludes the costs of hiring agency staff

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 were schools (7,030 at 31/3/17).

The Hutton Report on fair pay recommended that local authorities should publish the ratio of the top earner's 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 £2.3bn of land, property, infrastructure and plant and equipment assets on its books as at 31st 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 31st 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.

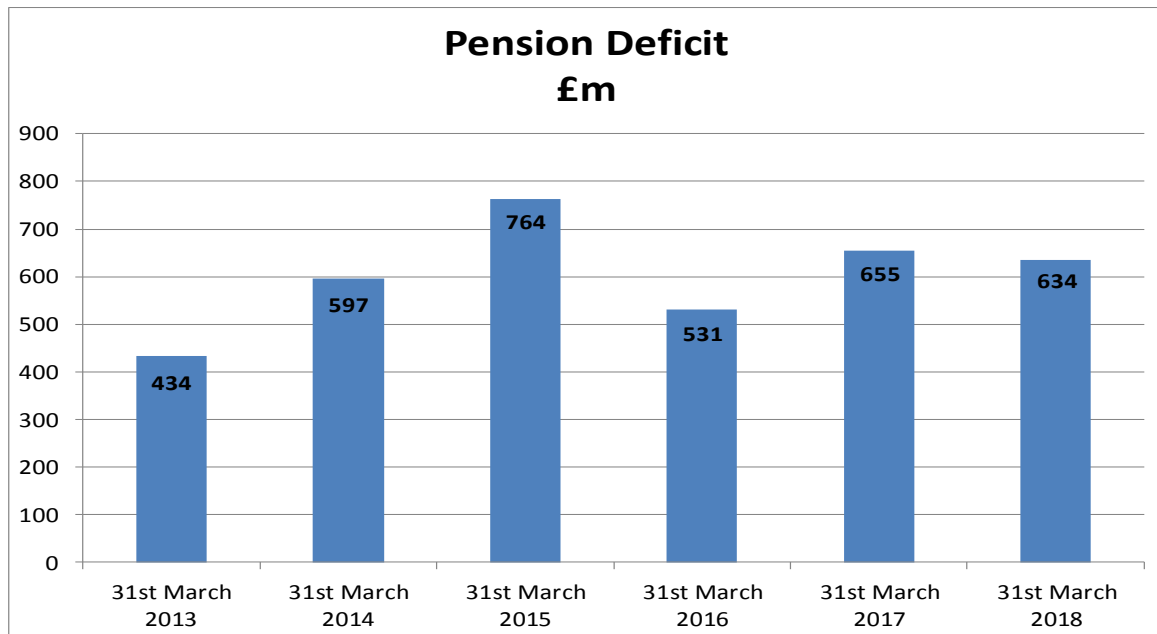
The Council's total usable reserves increased by £22m. This reflects the impact of the HRA surplus for 2017/18 of £7.4m and of capital receipts generated of £30m (of which £18m was for the sale of council dwellings, under the Right to Buy scheme).

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 of 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.

Further details on the Council's organisational structure, corporate plans and strategic issues can be found in the Annual Governance Statement

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 31st 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**..

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.

CllrDate

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 31st March 2018.

Signed:

Alison Greenhill CPFA, Director of Finance

Date:.....

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)		82,103	(85,005)	(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	-	-	-
891,387	(728,550)	162,837	Cost of Services		1,059,449	(707,377)	352,072
		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)
		(59,174)	(Surplus) or Deficit on Provision of Services	21			143,507
		(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)
		59,158	Other Comprehensive Income & Expenditure				(190,311)
		(16)	Total Comprehensive Income & Expenditure				(46,804)

*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
2,379,983	Long Term Assets		2,415,231
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
253,609	Current Assets		294,143
(10,292)	Short Term Borrowing	37	(19,995)
(133,445)	Short Term Creditors	41	(163,838)
(4,467)	Provisions (<1 year)	16	(5,097)
(148,204)	Current Liabilities		(188,930)
(7,792)	Provisions (>1 year)	16	(7,225)
(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)
(1,034,087)	Long Term Liabilities		(1,022,339)
1,451,301	Net Assets		1,498,105
	<u>Represented by:</u>		
296,929	Usable Reserves	3	319,242
1,154,372	Unusable Reserves	6	1,178,863
1,451,301	Total Reserves		1,498,105

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)
24,355	Net cash flows from Operating Activities		31,929
(22,667)	Net cash flows from Investing Activities	44	(4,117)
2,525	Net cash flows from Financing Activities	45	(2,080)
4,213	Net increase or (decrease) in cash and cash equivalents		25,732
14,123	Cash (in hand), overdraft and cash equivalents at the beginning of the reporting period		18,336
18,336	Cash (in hand), overdraft and cash equivalents at the end of the reporting period	42	44,068

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 31st May 2018 by Alison Greenhill CPFA, Director of Finance and s151 Officer. All events up to and including 31st 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)
Cost of Services	225,133	126,939	352,072
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)
(Surplus) or Deficit on Provision of Services	(3,924)	147,431	143,507

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)
Closing Balance	(15,000)	(30,745)	(45,745)

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)
Cost of Services	261,436	(98,599)	162,837
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)
(Surplus) or Deficit on Provision of Services	12,549	(71,723)	(59,174)

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)
Closing Balance	(15,000)	(23,348)	(38,348)

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
Total Usable Reserves	(296,929)	(22,313)	(319,242)	

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	Transfers In 2017/18	Transfers Out 2017/18	Balance at 31st March 2018
	£000	£000	£000	£000
Ring-fenced Reserves				
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
Total Ring-fenced Reserves	36,087	10,974	(12,375)	34,686
Corporate Reserves				
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
Total Corporate Reserves	114,816	57,983	(66,195)	106,604
Earmarked Reserves Departmental				
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
Total Other Reserves	20,772	10,374	(4,234)	26,912
Total Earmarked Reserves	171,675	79,331	(82,804)	168,202

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
Ring-fenced Reserves				
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)
Total Ring-fenced Reserves	45,561	6,411	(15,885)	36,087
Corporate Reserves				
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
Total Corporate Reserves	119,919	42,319	(47,422)	114,816
Earmarked Reserves Departmental				
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
Total Other Reserves	24,541	11,559	(15,328)	20,772
Total Earmarked Reserves	190,021	60,289	(78,635)	171,675

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
Opening Capital Financing Requirement	586,366	576,915
Capital Investment		
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	98,393	102,390
Sources of Finance		
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	(107,844)	(112,859)
Closing Capital Financing Requirement	576,915	566,446
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	-
Increase/(Decrease) in Capital Financing Requirement	(9,451)	(10,469)

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
Total Unusable Reserves	(1,154,372)	(1,178,863)

Revaluation Reserve

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

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

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

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

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

	2016/17 £000	2017/18 £000
Balance at 1st April	(1,121,704)	(1,238,918)
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	-
	(1,084,473)	(999,799)
Adjusting amounts written out of the Revaluation Reserve	(46,601)	(26,317)
Net written out amount of the cost of non-current assets consumed in the year	(1,131,074)	(1,026,116)
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)
Balance at 31st March	(1,238,918)	(1,138,975)

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
Balance at 1st April	(667)	(86)
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
Balance at 31st March	(86)	-
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
Balance at 1st April	(1,409)	(1,377)
Transfer of deferred sale proceeds to the DCCR	-	(2)
Transfer to the Capital Receipts Reserve upon receipt of cash	32	140
Balance at 31st March	(1,377)	(1,239)

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
Balance at 1st April	530,775	655,450
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)
Balance at 31st March	655,450	634,031

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
Balance at 1st April	1,661	(1,466)
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
Balance at 31st March	(1,466)	1,682

Accumulated Absences Account

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

	2016/17 £000	2017/18 £000
Balance at 1st April	5,962	6,662
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	700	(572)
Balance at 31st March	6,662	6,090

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.

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

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
Adjustments primarily involving the Capital Adjustment Account:												
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)
Adjustments primarily involving the Capital Receipts Reserve:												
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	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	-	-	-

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

Adjustment Continued	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
Adjustments primarily involving the Deferred Capital Receipts Reserve:												
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)
Adjustments primarily involving the Major Repairs Reserve:												
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)
Adjustments primarily involving the Capital Grants Unapplied Reserve:												
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	-
Adjustments primarily involving the Financial Instruments Adjustments Account:												
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(423)	(158)	-	-	-	581	-	(86)	-	-	-	86
Adjustments primarily involving the Pensions Reserve:												
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)
Adjustments primarily involving the Collection Fund Adjustment Account:												
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	3,127	-	-	-	-	(3,127)	(3,148)	-	-	-	-	3,148
Adjustment primarily involving the Accumulated Absences Account:												
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(693)	(7)	-	-	-	700	593	(21)	-	-	-	(572)
Total Adjustments	(126,355)	198,078	(26,936)	-	10,828	(55,615)	(128,763)	(18,668)	(29,792)	1,200	10,203	(165,820)

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
Total	1,015,548	1,020,244

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 31st 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	-	-	-	-	-	-
Total	126	125	203	187	329	312

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
Total	284	3,974,737	299	4,501,952

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 £14.7m 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
Comprehensive Income and Expenditure Statement		
<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)
Total Service Cost	40,539	63,098
Financing and Investment Income and Expenditure		
Expected return on scheme assets	(34,686)	(31,580)
Interest cost	53,193	48,838
Net Interest Cost	18,507	17,258
Total Post-employment Benefit charged to the (Surplus) or Deficit on the Provision of Services	59,046	80,356
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement		
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)
Total remeasurements recognised in the Comprehensive Income and Expenditure Statement	107,863	(58,179)
Total post-employment Benefit charged to the Comprehensive Income and Expenditure statement	166,909	22,177
Movement in Reserves Statement		
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)
Total Movement in Reserves	16,812	36,760

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
Balance at 1st April	1,520,345	1,867,006
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)
Balance at 31st March	1,867,006	1,909,655

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

	2016/17 £000	2017/18 £000
Balance at 1st April	989,570	1,211,556
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
Balance at 31st March	1,211,556	1,275,624

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
Surplus/(deficit) in the scheme	(596,792)	(764,428)	(530,775)	(655,450)	(634,031)

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 31st 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
Total	100.0%	18.9

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, based on the latest full valuation of the scheme as at 31st March 2016.

13. Defined Benefit Pension Schemes continued

The main assumptions used by the actuary have been:

Local Government Pension Scheme	2016/17	2017/18
Mortality assumptions:		
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
Benefit entitlement assumptions		
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
Equity				
Other	31,300	3%	30,952	2%
Debt Securities				
UK Government	104,337	9%	106,463	8%
Other	13,282	1%	11,645	1%
Private Equity				
All	45,748	4%	45,361	4%
Real Estate				
UK Property	97,351	8%	112,057	9%
Investment Fund and Unit Trusts				
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%
Derivatives				
Foreign Exchange	(559)	0%	(3,716)	0%
Cash and Cash Equivalents				
All	77,378	6%	53,067	4%
Total	1,211,556	100%	1,275,624	100%

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 of Estimation Uncertainty

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

The items in the Council's Balance Sheet at 31st March 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.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by approximately £1.8m for every year that useful lives had to be reduced.</p>
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
Balance at 1st April 2016	5,272	3,935	208	39	1,257	3,930	14,641
Net Movement (additions less amounts used)	113	(925)	(84)	-	(57)	(1,429)	(2,382)
Balance at 1st April 2017	5,385	3,010	124	39	1,200	2,501	12,259
2017/18 Provisions/(Reductions)	719	-	-	-	27	4,896	5,642
Amounts used in 2017/18	(1,185)	(415)	-	-	(500)	(3,479)	(5,579)
Balance at 31st March 2018	4,919	2,595	124	39	727	3,918	12,322

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

On 25th May 2018 the Council prematurely repaid three bank loans with a combined nominal value of £51.3m and a carrying amount in the balance sheet of £52.5m as at 31/03/2018. A premia of £22,753k was paid which will be amortised through the Financial Instruments Adjustment Account over an average period of 35 years. The transaction was funded using investment balances and the assessment was made that over the period of the amortisation of the premia interest payments saved on the loans repaid would exceed both the premia paid and the interest foregone on investment balances. In addition the transaction removed the risk presented by contractual terms within the loan that could lead to the loans being terminated at a time when interest rates were higher than at present.

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)
Cost of Services	352,072	(108,009)	(19,502)	572	(126,939)	225,133
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)
(Surplus) or Deficit on Provision of Services	143,507	(108,009)	(36,760)	(2,662)	(147,431)	(3,924)

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	-
Cost of Services	162,837	97,597	1,702	(700)	98,599	261,436
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)
(Surplus) or Deficit on Provision of Services	(59,174)	86,689	(16,812)	1,846	71,723	12,549

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
Expenditure		
Employee Benefit Expenses	422,040	404,350
Other Services expenses	805,293	793,100
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
Total Expenditure	1,198,742	1,391,300
Income		
Fees , charges and other service income	(397,305)	(395,248)
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)
Total Income	(1,257,916)	(1,247,793)
Surplus or Deficit on Provision of Services	(59,174)	143,507

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
Total	41,849	51,622

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)
Total	38,322	36,441

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)
Total	(302,182)	(296,628)

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
Credited to Services (All REFCUS related)		
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
Total Credited to Services	19,366	24,385

	2016/17 £000	2017/18 £000
Credited to Taxation & Non-Specific Grant Income		
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
Total Credited to Taxation & Non-Specific Grant Income	35,523	37,812

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
Capital Grants Receipts in Advance		
DFE Basic Need Grant	5,576	27,251
S106 Contributions	3,206	4,374
Devolved Formula Capital Grant	3,242	3,879
DFT Transport Grants	-	460
DFT Breathe Grants	184	184
Public Health Grants	268	-
Others	(25)	14
Total Capital Grants Receipts in Advance	12,451	36,162
Capital Receipts not Recognised	554	639
Total Received in Advance	13,005	36,801

Revenue grants recognised in the year

	2016/17 £000	2017/18 £000
Credited to Taxation & Non-Specific Grant Income		
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
Total Credited to Taxation & Non-Specific Grant Income	75,399	63,655
Credited to Services		
Children's and Education Services		
Pupil Premium	17,224	14,778
Dedicated Schools Grant (see note 27)	252,614	244,746
Other Education	32,973	29,813
Adults and Housing		
Other Adult Social Care	848	473
Improved Better Care Fund	-	8,954
Public Health		
Public Health Grant	28,214	27,519
Other Public Health	465	93
City Development, Neighbourhoods & Housing		
Waste PFI	2,046	2,074
Other City Development and Neighbourhoods	2,240	5,489
Corporate and Resources		
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
Total Credited to Services	469,537	459,555
Total Recognised in Year	544,936	523,210

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
Children's and Education Services		
Other Education	6,281	5,054
Adult Social Care		
Social Care Reform	518	518
Other Adult Social Care	3,109	4,981
City Development, Neighbourhoods & Housing		
City Development and Neighbourhoods	1,481	970
Corporate and Resources		
Other Resources	74	-
Public Health		
Other Public Health	12	155
Total Receipts in Advance	11,475	11,678

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

27. Dedicated Schools Grant continued

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

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
Funding provided to the pooled budget:		
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
Total Funding provided to the pooled budget	5,698	4,725
Total Expenditure met from the pooled budget	5,698	4,725

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
<u>Income</u>		
Revenue	22,714	22,253
Capital	1,001	2,035
Total Income	23,715	24,288
<u>Expenditure</u>		
<u>Revenue</u>		
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	-
Total Revenue Expenditure	20,349	19,913
<u>Capital</u>		
DFG allocated to Housing Services capital programme	1,001	1,182
Social Care Grant allocated to Adult Social Care capital programme	-	853
Total Capital Expenditure	1,001	2,035
Total Expenditure	21,350	21,948
<u>Net outturn over/(under) spend:</u>		
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)
Total	(15,915)	15,797	(118)	(14,845)	14,697	(148)

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
Total	211	217

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
Cost or Valuation									
At 1st April 2017	849,760	1,091,202	88,587	270,670	2,857	90,236	188	2,393,500	19,445
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	19,588	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	-	1,617	-	-	-	972	-	2,589	-
Asset reclassified (other)	1195	(1,195)	-	-	-	0	-	0	-
As at 31st March 2018	910,318	1,044,095	88,509	274,109	3,764	78,401	1,638	2,400,834	124,136
Accumulated Depreciation & Impairment									
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	-	-	-	-	-	-	-	-	-
As at 31st March 2018	-	(26,587)	(52,899)	(62,335)	(7)	(23)	-	(141,851)	(13,941)
Net Book Value as at 31st March 2018	910,318	1,017,508	35,610	211,774	3,757	78,378	1,638	2,258,983	110,195
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
Cost or Valuation									
At 1st April 2016	661,328	1,418,843	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)	-	-
As at 31st March 2017	849,760	1,091,202	88,587	270,670	2,857	90,236	188	2,393,500	119,445
Accumulated Depreciation & Impairment									
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	-
As at 31st March 2017	-	(29,925)	(54,508)	(55,582)	(6)	(21)	-	(140,042)	(11,124)
Net Book Value as at 31st March 2017	849,760	1,061,277	34,079	215,088	2,851	90,215	188	2,253,458	108,321
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 31st 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 31st 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
Total		21,260

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 1st 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	-	9,487	69,198	272,891	40	10,136	1,638	363,390
Valued at fair or nominal value as at:								
Pre 1st April 2009	-	62	-	-	18	-	-	80
1st April 2009	-	1,507	-	-	456	-	-	1,963
1st April 2010	-	2	-	-	-	-	-	2
1st April 2011	-	1,094	-	-	-	-	-	1,094
1st April 2012	-	8,596	-	383	393	-	-	9,372
1st April 2013	-	10,017	-	-	-	199	-	10,216
1st April 2014	-	34,398	-	724	413	-	-	35,535
1st April 2015	-	46,312	-	-	479	28	-	46,819
1st April 2016	-	4,811	2,904	-	-	3,537	-	11,252
1st April 2017	-	927,809	16,407	111	1,965	64,501	-	1,010,793
Valued @ 31st January 2018	910,318	-	-	-	-	-	-	910,318
Total	910,318	1,044,095	88,509	274,109	3,764	78,401	1,638	2,400,834

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)
Net carrying amount at start of year	1,202	2,627
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)
Gross Carrying Amount at 31st March	3,666	4,531
Accumulated Amortisation	(1,039)	(1,157)
Net Carrying Amount at 31st March	2,627	3,374

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

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

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)
Balance at 31st March	14,582	4,284

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
Total	6,392	6,101

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
Total minimum lease payments	22,237	21,894

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
Total	22,237	21,894	7,009	7,098

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
Total	4,736

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
Gross Investment in the lease	960

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
Total	960

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
Total	101,876	103,030

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)
Balance at 31st March 2018	12,848	640	13,488

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 31st 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
Total	67,102	20,136	5,312	92,550

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	-
Balance at 31st March	7,144	5,200

Building Schools for the Future – Phase 1 - Rebuild of Judgemeanow 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 – Judgemeanow 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)
Balance at 31st March 2018	43,982

Payments

The Council makes an agreed payment each year which is increased by inflation (based on the RPI-X measure) and can be reduced if the contractor fails to meet performance standards. Payments remaining to be made under the PFI contract at 31st March 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	1,584	533	2,560	990	5,667
Within 2 to 5 years	6,397	4,122	9,588	2,561	22,668
Within 6 to 10 years	7,921	7,865	9,455	3,094	28,335
Within 11 to 15 years	7,951	11,707	5,446	3,231	28,335
Within 16 to 20 years	1,848	4,284	400	80	6,612
Total	25,701	28,511	27,449	9,956	91,617

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)
Balance at 31st March	29,368	28,511

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 31st 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)
Balance at 31st March 2018	43,194

Payments

The Council makes an agreed payment each year which is increased by inflation (based on the RPI-X measure) and can be reduced if the contractor fails to meet performance standards. Payments remaining to be made under the PFI contract at 31st March 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	1,909	75	504	3,638
Total	40,527	39,191	33,986	14,471	128,175

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)
Balance at 31st March	40,519	39,191

District Energy Heating & Combined Heat Power Scheme

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

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

The initial capital investment made by LDEC Ltd for the whole scheme was £13.7m, 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 31st March 2018 are shown below:

	Vehicles, Plant & Equipment £000
Balance at 1st April 2017	8,532
Depreciation	(408)
Balance at 31st March 2018	8,124

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 31st 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
Total	35,931	9,163	11,825	4,195	61,114

Liability

The liability outstanding to the contractor for capital expenditure incurred up to 31st 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)
Balance at 31st March	8,838	8,613

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
Long Term Investments			
Amount in Balance Sheet	4,990	32,500	
Amounts covered in Note 37:	4,990	32,500	This note - section B Table 2
Short Term Investments			
Amount in Balance Sheet	168,026	192,380	
Amounts covered in Note 37:	168,026	192,380	This note - section B Table 2
Short Term Borrowing			
Amount in Balance Sheet	9,234	19,995	
Amounts covered in Note 37:	9,234	19,995	This note - section B Table 1
Long Term Borrowing			
Amount in Balance Sheet	243,063	234,495	
Amounts covered in Note 37:	243,063	234,495	This note - section B Table 1
Other Long Term Liabilities			
Amount in Balance Sheet	770,227	743,818	
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	-	-
Total Borrowing	243,063	234,495	9,234	19,995
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
Total Other Long-term Liabilities	113,965	108,987	5,353	5,093
Liabilities at amortised cost:				
- Trade payables	-	-	66,949	77,989
- PFI arrangements	567	538	-	-
Included in Creditors	567	538	66,949	77,989
Total Financial Liabilities	357,595	344,020	81,536	103,077

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
Total Investments	6,087	32,500	168,026	192,380
Loans and receivables:				
- Cash (including bank accounts)	-	-	10,336	14,068
Available-for-sale investments:				
- Cash equivalents at fair value	-	-	8,000	30,000
Total Cash and Cash Equivalents	-	-	18,336	44,068
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
Included in Debtors	4,958	8,965	40,514	33,278
Total Financial Assets	11,045	41,465	226,876	269,726

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

(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 31st 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
Total		362,947	561,206	358,632	544,246
Liabilities for which fair value is not disclosed *		76,183		88,464	
Total Financial Liabilities		439,130	561,206	447,096	544,246
<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	
Total Financial Liabilities		439,130		447,096	

* 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	-	-
Total		24,806	24,806	46,875	46,875
Assets for which fair value is not disclosed *		213,115		264,316	
Total Financial Assets		237,921	24,806	311,191	46,875
<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	
Total Financial Assets		237,921		311,191	

* 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 31st March 2018 (£81m as at 31st 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 31st 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 31st 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 31st March 2018 was £17.2m (£21.2m as at 31st 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 31st March 2018 will be £9.4m (£11.0m as at 31st March 2017) and that the impaired value of these debts are £7.8m (£10.2m as at 31st 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	Impaired	Due	Impaired
	£000	£000	£000	£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
Total	21,208	10,244	17,214	7,746

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
Total	372,180	369,107

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
Impact on Surplus or Deficit on the Provision of Services	399
Decrease in fair value of available for sale financial assets	0
Impact on Comprehensive Income and Expenditure	0
Decrease in fair value of loans and receivables *	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 31st 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
Total	2,423	2,758

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
Total	9,855	8,965

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
Total	50,242	50,653

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
Total	133,445	163,838

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
Total Cash and Cash Equivalents	18,336	44,068

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)
Net interest	(12,272)	(19,121)

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
	50,846	271,131

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)
	(85,665)	(95,695)

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
Net Cash Flows from Investing Activities	(22,667)	(4,117)

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
Net Cash Flows from Financing Activities	2,525	(2,080)

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

2016/17 £000		Note	2017/18 £000
	<u>Income</u>		
(79,112)	Dwelling Rents	5	(77,322)
(1,160)	Non-dwelling Rents	6	(1,073)
(4,600)	Service Charges	6	(5,286)
-	Contributions & Miscellaneous income*		(1,324)
(84,872)	Total Income		(85,005)
	<u>Expenditure</u>		
10,498	General Management		12,430
9,697	Special Management	3	12,081
30,463	Repairs & Maintenance		28,284
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
77,087	Total Expenditure		81,393
566	HRA share of Corporate & Democratic Core	15	710
(7,219)	"HRA Comprehensive Income and Expenditure Line"		(2,902)
(213,329)	Exceptional item: Reversal of Prior Year Impairments		-
(220,548)	Net Cost of HRA Services		(2,902)
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)
(203,875)	(Surplus) / Deficit for the Year		11,272

*The Council have identified an incorrect classification of income within the expenditure lines in the HRA Income & Expenditure Statement. The income was previously offset against expenditure; it is now shown correctly in the Contributions & Miscellaneous Income line. The comparative figure for 2016/17 was £3,044k.

MOVEMENT IN HRA RESERVE STATEMENT

2016/17 £000		Note	2017/18 £000
(203,875)	(Surplus) / Deficit for the Year (from above)		11,272
-	<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	Total value of items reversed as part of determining the statutory movement on the Housing Revenue Account Balance		(18,668)
(5,797)	Net (surplus)/deficit on the Housing Revenue Account in the year		(7,396)
(17,551)	Balance Brought Forward 1st April 2017		(23,348)
(23,348)	Balance Carried Forward 31st March 2018		(30,744)

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 31st 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)
Total	31,698	33,594

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)
Number of Dwellings at 31st March	21,150	20,759

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
Total	866,995	935,021

9. Vacant Possession Value of Council Dwellings

The vacant possession value of council dwellings at 31st 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
Total	19,571	18,056

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	-	223
Mortgages	17	-	-	-
Total	17,389	11,234	7,084	18,318

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
Total	8,075	(193,954)	(185,879)	10,473	17,582	28,055

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
Balance at 31st March	(1,200)	-

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)
Total Transfer to Pension Reserve	(2,487)	(4,406)

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
			Income				
(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)
		(218,597)	Total Income				(227,652)
			Expenditure				
			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
		209,831	Total Expenditure				233,672
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)
(1,955)	392	(1,563)	FUND BALANCE AS AT 31st MARCH	1	(1,356)	5,814	4,458

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)
Fund Balance Allocations as at 31st March	(1,955)	392	(1,563)	(1,356)	5,814	4,458

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
	115,342		87,718	15,262	72,456
Less adjustments for collection rates and other adjustments.					(1,631)
Council Tax Base					70,825

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
Total	110,675	118,403

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 31st March 2018 (£1,563,349 surplus at 31st 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
Total	10,347	686	11,033	2,662

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. Figures within the Statement of Accounts may be adjusted by up to £2,000 to take account of rounding differences arising due to reporting figures in thousands (£000s)

2. 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 were no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, the Council's policy is to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirements. This is known as "Minimum Revenue Provision" (MRP). The Council is also able to make additional voluntary MRP known as "Voluntary Set Aside" (VSA).

Depreciation, revaluations, impairment losses and amortisations are therefore replaced by MRP and VSA in the Movement in Reserves Statement, by way of an adjusting transaction within the Capital Adjustment Account for the difference between the two.

The Council's full policy on the calculation of Minimum Revenue Provision is set out in the annual budget approved by Council. The Council's MRP policy brings the charge into line with asset lives, 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 the 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 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
 - unlisted 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 1st 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 asset's recognition is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods they are incurred. Payments under such leases are apportioned between:

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

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 1st 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 1st April 2012 is payable into a government pool, with the balance of the receipts (after a deduction to compensate the HRA for a higher level of sales under the new rules) being available for general capital investment plus a prescribed requirement to provide new affordable housing. 50% of HRA receipts from non-RTB disposals are also required to be paid into the government pool, unless they are reinvested in new affordable housing or regeneration capital schemes, in which case the pooling requirement is waived.

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

The written-off value of disposals is not charged against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

Depreciation:

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

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.

19. Property Plant and Equipment continued

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

21. Provisions, Contingent Liabilities and Assets continued

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

Accounting standards issued but not adopted continued

impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

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

1. Introduction

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

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

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

2. The Arrangements

The Council works within the governance 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

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:
<p>Medium Term Financial Strategy - like all local authorities, the Council's financial viability is a key concern at a time of deep funding cuts.</p>	<p>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.</p>
<p>2015 OFSTED Inspection – 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.</p>	<p>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.</p>

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:
<p>Medium Term Financial Strategy - like all local authorities, the Council's financial viability continues to be a key concern at a time of deep funding cuts.</p>	<p>The strategy is updated annually, and delivery of savings continually monitored.</p>
<p>2015 OFSTED Inspection – 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.</p>	<p>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.</p>

4. Conclusion

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

Signed:

City Mayor

Chief Operating Officer

Director of Finance

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

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