# Contents

Leicestershire County Council 2011/12 Statement of Accounts and Annual Governance Statement.



Copies of the Statement of Accounts and Annual Governance Statement, and a large print version, are available from the Corporate Resources Department, Leicestershire County Council, County Hall, Glenfield, Leicester LE3 8RB. Tel: Leicester (0116) 3057644. Alternatively, the accounts can be viewed on the County Council's website by visiting www.leics.gov.uk.

# Explanatory Foreword

### Introduction

This document sets out the published Statement of Accounts and Annual Governance Statement of the County Council for 2011/12.

The foreword gives a brief summary of the overall financial position of the County Council, sets out how the County Council's budget is spent and financed and explains the purpose of the financial statements that are contained within the accounts.

### Revenue Budget and Outturn

In February 2011 the Council approved a net revenue budget for 2011/12 of £348.8m. In addition £5.1m of 2010/11 underspending was carried forward and added to the budget. The final outturn position for the year against the revised budget is set out in the table below together with the sources of income from which the Council's net revenue expenditure was financed.

| | Budget | Outturn | Variance | Carry forwards | Variance |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Children & Young People | 45.7 | 46.3 | 0.6 | 0.0 | 0.6 |
| Adults & Communities | 131.3 | 123.2 | -8.1 | 0.9 | -7.2 |
| Highways & Transport | 56.5 | 55.6 | -0.9 | 0.8 | -0.1 |
| Environment | 27.4 | 24.1 | -3.3 | 0.2 | -3.1 |
| Chief Executives | 17.7 | 16.9 | -0.8 | 0.6 | -0.2 |
| Corporate Resources | 39.0 | 38.4 | -0.6 | 0.4 | -0.2 |
| Contingencies etc | 9.5 | 8.8 | -0.7 | 0.0 | -0.7 |
| Central Items | 26.8 | 22.6 | -4.2 | 0.5 | -3.7 |
| Approved transfers to Reserves/ Provisions | 0.0 | 13.6 | 13.6 | 0.0 | 13.6 |
| | 353.9 | 349.5 | -4.4 | 3.4 | -1.0 |
| Funded by: | | | | | |
| Formula Grant | -108.8 | -108.8 | 0.0 | 0.0 | 0.0 |
| Council Tax | -240.0 | -240.0 | 0.0 | 0.0 | 0.0 |
| Carry forwards from 2010-11 | -5.1 | -5.1 | 0.0 | 0.0 | 0.0 |
| | -353.9 | -353.9 | 0.0 | 0.0 | 0.0 |
| NET OUTTURN | 0.0 | -4.4 | -4.4 | 3.4 | -1.0 |

## *Review of the Year - Income and Expenditure*

In overall terms the County Council underspent against the updated budget by £1.0m net of carry forwards (£3.4m) and approved transfers (£13.6m). The significant underspends against the budget are set out below:

## *Underspends*

**Adults and Communities (£8.1m gross, £7.2m net)**

The main underspends were on supported living due to slippage on growth for changes in funding arrangements and increased income and on home care due to retendered contracts and reduced demands relating to tightened eligibility and improved reablement. There were also underspends on personal care and support due to increased income and on management and support services, where rephasing of the Department's efficiencies programme meant that part of the funding was not needed until next year.

**Highways and Transport (£0.9m gross, £0.1m net)**

The main underspends were on concessionary travel as growth in demand and the cost of appeals were lower than anticipated and on other transport budgets through the renewal of contracts. Special educational needs travel was the main overspend due to a 10% increase in client numbers.

**Environment (£3.3m gross, £3.1m net)**

This was mainly due to falling volumes of waste and reduced expenditure on the waste strategy following the withdrawal of Private Finance Initiative funding to the long term waste treatment project.

**Chief Executives (£0.8m gross, £0.2m net)**

This mainly relates to slower than anticipated draw down of Big Society grants and other projects, staff vacancies and additional income.

**Corporate Resources (£0.6m gross, £0.2m net)**

This underspend mainly relates to staff vacancies and additional income.

**Contingencies for inflation (£0.7m, gross and net)**

The original budget included a contingency of £7.8m for inflation, of which £7.1m has been allocated to services including Provisions for residential care charges, Carbon Reduction Commitment, highways maintenance, passenger transport, buildings maintenance and energy budgets. A balance of £0.7m has not been required.

**Central Items (£4.2m gross, £3.7m net)**

This mainly relates to an underspend on capital financing following previously expected borrowing not being taken, the adjustment of various accrued creditor payments not required and a reassessment of the provision for lease car termination costs.

### *Overspends*

**Children and Young People (£0.6m gross and net overspend)**

Overspends mainly relate to children's social care services, largely due to increase demand for high cost specialist residential agency placements and increased numbers of children subject to the child protection plan.

### *Transfers to Earmarked Reserves*

Contributions were made to a number of earmarked reserves, including "invest to save" projects, the uninsured loss fund and the local authority mortgage scheme.

### *Differences between the Budget and the Comprehensive Income and Expenditure Statement*

Readers of the accounts should note that the reported underspend in the explanatory foreword cannot be directly compared to that reported in the Comprehensive Income and Expenditure Statement. This is because the financial accounts comply with various reporting standards whereas the management accounts are compiled on a slightly different basis. The key differences relate to the way in which depreciation, impairment, reserves, provisions and carry forwards are reported.

### *Review of the Year – Capital*

In 2011/12 the County Council spent £73.5m on capital projects. The table below shows the main areas of expenditure.

| **Department** | **Outturn £m** |
|---|---|
| Children & Young People's | 35.5 |
| Environment and Transportation - Transportation | 26.4 |
| Environment and Transportation - Waste Management | 1.7 |
| Adults and Communities | 0.5 |
| Corporate Resources (ICT, County Farms, Access for the Disabled, Risk Management, County Hall, Change Management, Carbon Management) | 9.1 |
| Chief Executive (Various Grants for Rural Services) | 0.3 |
| **Total** | **73.5** |

The above expenditure was financed through several sources, the details of which appear in disclosure note 38.
The most significant items of expenditure are set out below. Some of these projects represent work in progress and will be completed within the next two years.

| | £m |
|---|---|
| ***Schools*** | |
| ▫ Melton John Ferneley – new secondary school | 3.2 |
| ▫ Birstall Longslade Post 16 Centre – new multi purpose centre | 2.1 |
| ▫ Melton Longfield Phase 2 – new classroom block to replace mobile buildings | 1.3 |
| ▫ Countesthorpe SEN Provision – satellite provision for Birkett House | 1.2 |
| ▫ Moira Primary School – extension | 1.2 |
| ▫ Blaby Short Stay School – extension and refurbishment | 1.1 |
| ▫ Albert Village Primary School – building improvements and refurbishment | 1.0 |
| ***Environment & Transportation*** | |
| ▫ Loughborough Eastern Gateway | 4.2 |
| ▫ Birstall Park and Ride | 2.3 |
| ▫ Street Lighting | 1.3 |
| ▫ Bridge maintenance | 1.2 |
| ***Corporate Resources*** | |
| ▫ Office Accommodation Strategy - Invest to Save Programme | 6.7 |

### *Current Borrowing*

The capital financing requirement (CFR) shown in note 38 to the Statement of Accounts measures the County Council's need to borrow for capital purposes. The total of non current assets at the Balance Sheet date was £937.8m. The CFR was £380.4m and actual debt was £318.6m. The difference between the CFR and the actual debt is the temporary use of working cash balances held by the County Council. During 2011/12, one maturity loan of £12m was repaid to the Public Works Loans Board (PWLB). Details of the loans held by the County Council are shown in note 43 to the accounts. The level of capital borrowing is within the County Councils 2011/12 Prudential Indicators that inform the County Council whether its capital investment plans are affordable, prudent and sustainable.

### *Academy Schools*

During 2011/12 fifteen schools transferred to Academy Status resulting in the net book value of the schools, £76.3m, being written out of the County Council's Balance Sheet through the Other Operating Expenditure section of the Comprehensive Income and Expenditure Statement. These entries are reversed out via the Movement in Reserves Statement and do not have an impact on the General County Fund. The council has no choice in whether to transfer these assets and does not receive any consideration for their transfer. Further transfers of schools to Academy Status are expected in 2012/13 and later years.

### *Future Prospects*

The state of public finances is likely to signify a continuation of very tight funding for the foreseeable future. Adding this with the objective to minimise council tax and a fundamental review of Local Government funding arrangements, means that the County Council will continue to operate within an extremely tight financial environment over the medium term.

The Council's Medium Term Financial Strategy (MTFS) agreed in February 2012 is based on a proposed council tax freeze for four years and assumes that the level of Government funding will decline by a further 30% over the last three years of the MTFS.

The main costs and risks over the medium term continue to be in Adult Social Care and Waste. This is largely as a result of an ageing population with increasing care needs and the cost of Landfill Tax and alternative methods of waste disposal respectively. The outlook for interest rates is probably clearer than it has been for some time with an expectation that they will remain low for a significant period of time. Inflation is reducing and the Consumer Prices Index (CPI) is predicted to fall to around 2.1% by 2013/14 with the Retail Prices Index falling to 3% by 2013/14.

A significant pressure is the delivery of planned efficiency savings. The Council will need to continue to invest in significant service reconfiguration both to improve services and generate greater efficiency savings. The MTFS also includes reductions to services.

The MTFS is reviewed annually in the autumn to reflect the latest view on available resources. The current MTFS is available on the County Council's website at www.leics.gov.uk.

The reform of the Public Health system in England will see the responsibility for a large part of Public Health being transferred from the NHS to Local Authorities from 2013/14. The new responsibilities will see the County Council taking the lead for improving Public Health and coordinating local efforts to protect the public's health and wellbeing, and ensuring health services effectively promote population health. To ensure an effective transfer of responsibilities, the Director of Public Health in Leicestershire is located at Leicestershire County Council and is a member of the County Council's Corporate Management Team. He remains employed by the Primary Care Trust. The Statement of Accounts will include Public Health income and expenditure from 2013/14.

### *Changes in Accounting Standards*

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Authority. As set out in the Authority's Statement of Accounting Policies and Estimation Techniques, the Authority now requires heritage assets to be carried in the Balance Sheet at valuation. Previously, heritage assets were either recognised within Land and Buildings within Property, Plant and Equipment on the Balance Sheet or were not included in the Balance Sheet as it was not possible to obtain cost information on the assets. The impact on restating previous years' financial statements are shown in Note 1 to the Accounts as required by the Code of Practice.

### *Contents of the Statement of Accounts*

The following accounting statements represent the County Council's accounts for the 2011/12 financial year:

- ***Movement in Reserves Statement:***

  This statement shows the movement in the year on the different reserves held by the County Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the County Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General County Fund Balance for tax setting purposes. The net increase or decrease before transfers to earmarked reserves line shows the statutory General County Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the County Council.

- ***Comprehensive Income and Expenditure Statement (CIES):***

  This statement shows the accounting cost in the year of providing services in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. The County Council raises taxation to cover expenditure in accordance with statutory regulations which may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

  The CIES has two sections:

  - Surplus or Deficit on the Provision of Services – the increase or decrease in the net worth of the County Council as a result of incurring expenses and generating income.

  - Other Comprehensive Income and Expenditure – shows any changes in net worth which have not been reflected in the Surplus or Deficit on the Provision of Services. These include the increase or decrease in the net worth of the County Council as a result of movements in the fair value of its assets and actuarial gains or losses on pension assets and liabilities.

- ***Balance Sheet:***

  The Balance Sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the County Council. It incorporates all the funds of the County Council, both capital and revenue, with the exception of the Pension Fund and Trust funds.

  The net assets of the County Council (assets less liabilities) are matched by the reserves held by the County Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the County Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the County Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains or losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statements line 'Adjustments between accounting basis and funding basis under regulations'.

- ***Cash Flow Statement:***

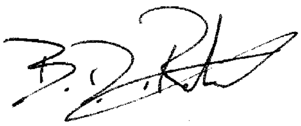
  The Cash Flow Statement shows the changes in Cash and Cash Equivalents of the County Council during the reporting period. The statement shows how the County Council generates and uses Cash and Cash Equivalents by classifying cash flows as operating, investing and financing activities. The amount of net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

- ***Pension Fund:***

  This statement details the annual results of the Leicestershire County Council administered Local Government Pension Fund for Leicestershire, covering both County Council employees and those of District Councils and other admitted bodies.

### *Date of Authorisation of Accounts*

The accounts were authorised for issue on the 29 June 2012, by the Director of Corporate Resources. This was the last date when events after the Balance Sheet date have been considered.



**B D ROBERTS**
**DIRECTOR OF CORPORATE RESOURCES**

**Date: 27 September 2012**

# Movement in Reserves Statement

| **Movement in reserves during 2011/12** | ***General Fund Balance £m** | **Earmarked Reserves £m** | **Capital Receipts Reserve £m** | **Capital Grants Unapplied £m** | **Total Usable Reserves £m** | **Unusable Reserves £m** | **Total Authority Reserves £m** | **Note** |
|---|---|---|---|---|---|---|---|---|
| Balance at 31 March 2011 | 31.9 | 86.5 | 3.1 | 4.4 | 125.9 | 294.4 | 420.3 | |
| Surplus or (deficit) on provision of services | (53.0) | 0.0 | 0.0 | 0.0 | (53.0) | 0.0 | (53.0) | |
| Other Comprehensive Expenditure and Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (70.0) | (70.0) | 13,14, 15 |
| Total Comprehensive Expenditure and Income | (53.0) | 0.0 | 0.0 | 0.0 | (53.0) | (70.0) | (123.0) | |
| Adjustments between accounting basis & funding basis under regulations | 79.2 | 0.0 | (2.2) | 1.9 | 78.9 | (78.9) | 0.0 | 7,8 |
| Net Increase/ (Decrease) before Transfers to Earmarked Reserves | 26.2 | 0.0 | (2.2) | 1.9 | 25.9 | (148.9) | (123.0) | |
| Transfers to/from Earmarked Reserves | (26.1) | 26.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 9 |
| Increase/ (Decrease) in Year | 0.1 | 26.1 | (2.2) | 1.9 | 25.9 | (148.9) | (123.0) | |
| Balance at 31 March 2012 carried forward | **32.0** | **112.6** | **0.9** | **6.3** | **151.8** | **145.5** | **297.3** | |

*See Note 9 for General Fund Balance breakdown between uncommitted funds and schools balances.

| **Movement in reserves during 2010/11** | ***General Fund Balance £m** | **Earmarked Reserves £m** | **Capital Receipts Reserve £m** | **Capital Grants Unapplied £m** | **Total Usable Reserves £m** | **Unusable Reserves £m** | **Total Authority Reserves £m** | **Note** |
|---|---|---|---|---|---|---|---|---|
| Balance at 31 March 2010 | 27.8 | 62.9 | 4.4 | 7.2 | 102.3 | (34.6) | 67.7 | |
| Surplus or (deficit) on provision of services | 137.0 | 0.0 | 0.0 | 0.0 | 137.0 | 0.0 | 137.0 | |
| Other Comprehensive Expenditure and Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 215.6 | 215.6 | 13,14, 15 |
| Total Comprehensive Expenditure and Income | 137.0 | 0.0 | 0.0 | 0.0 | 137.0 | 215.6 | 352.6 | |
| Adjustments between accounting basis & funding basis under regulations | (109.3) | 0.0 | (1.3) | (2.8) | (113.4) | 113.4 | 0.0 | 7,8 |
| Net Increase/ (Decrease) before Transfers to Earmarked Reserves | 27.7 | 0.0 | (1.3) | (2.8) | 23.6 | 329.0 | 352.6 | |
| Transfers to/from Earmarked Reserves | (23.6) | 23.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 9 |
| Increase/ (Decrease) in Year | 4.1 | 23.6 | (1.3) | (2.8) | 23.6 | 329.0 | 352.6 | |
| Balance at 31 March 2011 carried forward | **31.9** | **86.5** | **3.1** | **4.4** | **125.9** | **294.4** | **420.3** | |
| | | | | | | | | |

*See Note 9 for General Fund Balance breakdown between uncommitted funds and schools balances.

# Comprehensive Income and Expenditure Statement

| Restated 2010/11 | | | | | 2011/12 | | |
|---|---|---|---|---|---|---|---|
| Gross Exp | Income | Net Exp | | Note | Gross Exp | Income | Net Exp |
| £m | £m | £m | | | £m | £m | £m |
| | | | **CONTINUING SERVICES** | | | | |
| 665.3 | (540.4) | 124.9 | Children's and Education Services | | 631.3 | (508.2) | 123.1 |
| 186.6 | (57.3) | 129.3 | Adult Social Care | | 192.4 | (67.6) | 124.8 |
| 71.8 | (24.3) | 47.5 | Highways and Transport Services | | 78.1 | (25.8) | 52.3 |
| 27.4 | (9.5) | 17.9 | Cultural & Related Services | | 24.3 | (8.7) | 15.6 |
| 33.6 | (3.2) | 30.4 | Environmental & Regulatory Services | | 33.7 | (3.0) | 30.7 |
| 10.6 | (4.3) | 6.3 | Planning Services | | 6.3 | (0.9) | 5.4 |
| 2.2 | (0.7) | 1.5 | Central Services to the Public | | 1.8 | (0.6) | 1.2 |
| 0.3 | (0.1) | 0.2 | Housing Services | | 0.4 | (0.1) | 0.3 |
| 15.2 | (6.5) | 8.7 | Corporate and Democratic Core | | 20.5 | (10.1) | 10.4 |
| 6.0 | 0.0 | 6.0 | Non Distributed Costs | 5 | 5.0 | (8.5) | (3.5) |
| 0.0 | (124.3) | (124.3) | Past Service Gain on Pension Liability | 5 | 0.0 | 0.0 | 0.0 |
| **1,019.0** | **(770.6)** | **248.4** | **NET COST OF SERVICES** | | **993.8** | **(633.5)** | **360.3** |
| 0.2 | (0.1) | 0.1 | Other Operating Expenditure (Excluding transfer of Academies) | 10 | 0.3 | 0.0 | 0.3 |
| 0.0 | 0.0 | 0.0 | Other Operating Expenditure (Transfer of Academies) | 5,10 | 76.3 | 0.0 | 76.3 |
| 34.5 | (5.3) | 29.2 | Financing and Investment Income and Expenditure | 11 | 22.8 | (6.3) | 16.5 |
| 0.0 | (414.7) | (414.7) | Taxation and Non-specific Grant Income | 12 | 0.0 | (400.4) | (400.4) |
| | | **(137.0)** | **(SURPLUS) OR DEFICIT ON PROVISION OF SERVICES** | | | | **53.0** |
| | | 4.4 | (Surplus) or deficit on revaluation of non current assets (Notes 14 and 15) | | | | (43.2) |
| | | (220.0) | Actuarial (gains) / losses on pension assets / liabilities (Note 13) | | | | 113.2 |
| | | **(215.6)** | **OTHER COMPREHENSIVE INCOME AND EXPENDITURE** | | | | **70.0** |
| | | **(352.6)** | **TOTAL COMPREHENSIVE INCOME AND EXPENDITURE** | | | | **123.0** |

# Balance Sheet as at 31 March 2012

| 31 March 2011 £m | | Note | 31 March 2012 £m | |
|---|---|---|---|---|
| | **NON-CURRENT ASSETS** | | | |
| | **Property, Plant and Equipment** | | | |
| 697.2 | Land and buildings | 14 | 646.6 | |
| 3.2 | Vehicles, Plant, Furniture & Equipment | 14 | 4.2 | |
| 248.4 | Infrastructure | 14 | 259.9 | |
| 11.7 | Community Assets | 14 | 11.7 | |
| 16.9 | Assets Under Construction | 14 | 6.9 | |
| 2.4 | Surplus Assets | 14 | 4.3 | |
| **979.8** | | | **933.6** | |
| **4.0** | **Heritage Assets** | 15 | **4.2** | |
| **0.3** | **Intangible Assets** | 14 | **0.6** | |
| | **Non-Operational Assets** | | | |
| 25.0 | Long Term Investments | 16 | 25.0 | |
| 49.6 | Long Term Debtors | 19 | 49.8 | |
| **74.6** | | | **74.8** | |
| **1,058.7** | **Total Long Term Assets** | | | **1,013.2** |
| | **CURRENT ASSETS** | | | |
| 0.4 | Assets Held for Sale | 14 | 0.3 | |
| 1.3 | Inventories | 17 | 1.4 | |
| 0.1 | Intangible Current Assets | | 0.0 | |
| 64.6 | Short Term Debtors | 20 | 64.8 | |
| 45.9 | Cash and Cash Equivalents | 21 | 48.9 | |
| 54.8 | Short Term Investments | 16, 18 | 59.0 | |
| **167.1** | **Total Current Assets** | | | **174.4** |
| | **CURRENT LIABILITIES** | | | |
| 0.0 | Bank Overdraft | | 0.0 | |
| (16.3) | Short Term Borrowing | 16 | (16.3) | |
| (119.7) | Short Term Creditors | 22 | (105.3) | |
| (3.2) | Short Term Capital Grants Receipts in Advance | 37 | (1.1) | |
| (0.1) | Short Term Finance Lease Liabilities | 39 | (0.1) | |
| (4.2) | Short Term Provisions | 23 | (8.0) | |
| **(143.5)** | **Total Current Liabilities** | | | **(130.8)** |
| | **NON CURRENT LIABILITIES** | | | |
| (321.7) | Long Term Borrowing | 16 | (309.2) | |
| (1.8) | Long Term Finance Lease Liabilities | 39 | (1.7) | |
| (3.3) | Long Term Provisions | 23 | (5.3) | |
| (330.1) | Net Pensions Liability | 13 | (438.8) | |
| (5.1) | Long Term Capital Grants Receipts in Advance | 37 | (4.5) | |
| **(662.0)** | **Total Non Current Liabilities** | | | **(759.5)** |
| **420.3** | **Net Assets** | | | **297.3** |

| 31 March 2011 £m | | *Note* | 31 March 2012 £m | |
|---|---|---|---|---|
| | **FINANCED BY** | | | |
| | **Usable Reserves** | | | |
| 31.9 | General County Fund | 9 | 32.0 | |
| 86.5 | Earmarked Revenue Reserves | 9 | 112.6 | |
| 3.1 | Capital Receipts Reserve | | 0.9 | |
| 4.4 | Capital Grants Unapplied | | 6.3 | |
| **125.9** | **Total Usable Reserves** | | | **151.8** |
| | **Unusable Reserves** | | | |
| 137.6 | Revaluation Reserve | 8 | 160.0 | |
| (330.1) | Pension Reserve | 8 | (438.8) | |
| 504.2 | Capital Adjustment Account | 8 | 441.1 | |
| 0.0 | Deferred Capital Receipts Reserve | 8 | 3.6 | |
| (6.5) | Financial Instruments Adjustment Account | 8 | (6.3) | |
| 1.4 | Collection Fund Adjustment Account | 8, 45 | 0.7 | |
| (12.2) | Short-Term Accumulating Compensated Absences Adjustment Account | 8 | (14.8) | |
| **294.4** | **Total Unusable Reserves** | | | **145.5** |
| **420.3** | **Total Reserves** | | | **297.3** |

# Cash Flow Statement

| Restated 2010/11 | | | 2011/12 | |
|---|---|---|---|---|
| £m | | Note | £m | £m |
| (137.0) | Net (surplus) / deficit on the provision of services | | 53.0 | |
| 45.8 | Adjust net (surplus) / deficit on the provision of services for non cash movements | 24 | (134.1) | |
| 37.3 | Adjust for items included in the net (surplus) / deficit on the provision of services that are investing and financing activities | 24 | 28.5 | |
| 9.9 | Net Cash flows from Operating Activities | 25 | 11.0 | |
| (44.0) | Total Net cash flows from Operating Activities | | | (41.6) |
| 11.7 | Net cash flows from Investing Activities | 26 | | 26.1 |
| (9.5) | Net cash flows from Financing Activities | 27 | | 12.5 |
| **(41.8)** | **Net (Increase)/Decrease in Cash and Cash Equivalents** | | | **(3.0)** |
| (4.1) | Cash and Cash Equivalents at the Beginning of the Reporting Period | | | (45.9) |
| (45.9) | Cash and Cash Equivalents at the End of the Reporting Period | | | (48.9) |

# Notes to the Accounts

### 1. *Heritage Assets: Change in Accounting Policy required by the Code of Practice for Local Authority Accounting in the United Kingdom*

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for Heritage Assets held by the Authority. As set out in the Authority's Statement of Accounting Policies and Estimation Techniques, Heritage Assets are to be carried in the Balance Sheet at valuation. Previously, Heritage Assets were either recognised within Land and Buildings within Property, Plant and Equipment on the Balance Sheet or were not included in the Balance Sheet as it was not possible to obtain cost information on the assets. The Authority's accounting policies for recognition and measurement of Heritage Assets are set out in the Authority's Statement of Accounting Policies and Estimation Techniques.

In applying the new accounting policy, the Authority has identified that the assets that were previously held within Property, Plant and Equipment at £0.1m should now be recognised as Heritage Assets and measured at £0.3m with a corresponding increase in the Revaluation Reserve. This relates to the Century Theatre at Snibston Discovery Park. The Authority has also recognised an additional £3.7m for the recognition of Heritage Assets that were not previously recognised in the Balance Sheet. Again, this increase is also recognised in the Revaluation Reserve. The 1 April 2010 and 31 March 2011 Balance Sheets and 2010/11 comparative figures have been restated to apply the new policy.

The effects of the restatements are as follows:

- At 1 April 2010 the carrying amount of the Heritage Assets is presented at its valuation of £4.0m. The element that was previously recognised in Property, Plant and Equipment has been reclassified and written down by £0.1m. The Revaluation Reserve has increased by £3.9m.
- The adjustments that have been made to the Balance Sheet included in the published 2010/11 Statement of Accounts are as follows:

**Table 1**

| **Effect on Opening Balance Sheet 1 April 2010** | **Opening 1 April 2010 Balance Sheet £m** | **Heritage Asset Movements £m** | **Restated 1 April 2010 Balance Sheet £m** |
|---|---|---|---|
| Land and Buildings | **704.2** | (0.1) | **704.1** |
| Heritage Assets | **0.0** | 4.0 | **4.0** |
| Long-term Assets | **1,044.6** | 3.9 | **1,048.5** |
| Total Net Assets | **67.7** | 3.9 | **71.6** |
| Revaluation Reserve | **145.9** | 3.9 | **149.8** |
| Unusable Reserves | **(34.6)** | 3.9 | **(30.7)** |
| Total Reserves | **67.7** | 3.9 | **71.6** |

**Table 2**

| Effect on Balance Sheet 31 March 2011 | Opening 31 March 2011 Balance Sheet £m | Heritage Asset Movements £m | Restated 31 March 2011 Balance Sheet £m |
|---|---|---|---|
| Land and Buildings | **697.3** | (0.1) | **697.2** |
| Heritage Assets | **0.0** | 4.0 | **4.0** |
| Long-term Assets | **1,054.8** | 3.9 | **1,058.7** |
| Total Net Assets | **416.4** | 3.9 | **420.3** |
| Revaluation Reserve | **133.7** | 3.9 | **137.6** |
| Unusable Reserves | **290.5** | 3.9 | **294.4** |
| Total Reserves | **416.4** | 3.9 | **420.3** |

- The adjustments that have been made to the Comprehensive Income and Expenditure Statement included in the published 2010/11 Statement of Accounts are as follows:

**Table 3**

| Extract from the Opening 31 March 2011 Comprehensive Income and Expenditure Statement | Opening 31 March 2011 Net Expenditure £m | Heritage Asset Movements £m | Restated 2010/11 Comprehensive Income and Expenditure Statement £m |
|---|---|---|---|
| (Surplus) or Deficit on revaluation of non-current assets | **8.3** | (3.9) | **4.4** |
| **OTHER COMPREHENSIVE INCOME AND EXPENDITURE** | **(211.7)** | (3.9) | **(215.6)** |
| **TOTAL COMPREHENSIVE INCOME AND EXPENDITURE** | **(348.7)** | (3.9) | **(352.6)** |

- The adjustments that have been made to the Movement in Reserves Statement included in the published 2010/11 Statement of Accounts are as follows:

**Table 4**

| Extract from the 2010/11 Movement in Reserves Statement | Total Reserves As Previously Stated £m | Heritage Asset Movements £m | Restated 2010/11 Movement in Reserves Statement £m |
|---|---|---|---|
| Other Comprehensive Income And Expenditure | **211.7** | 3.9 | **215.6** |
| Total Comprehensive Income And Expenditure | **348.7** | 3.9 | **352.6** |
| Increase/(Decrease) in Year | **348.7** | 3.9 | **352.6** |
| Balance at 31 March 2011 carried forward | **416.4** | 3.9 | **420.3** |

## 2. *Accounting Standards that have been issued but not yet adopted*

The adoption of amendments to IFRS 7 Financial Instruments: Disclosures (issued October 2010) by the code will result in a change in accounting policy that requires disclosure.

The amendments are intended to assist users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the Authority's financial position. Relevant circumstances would arise where the Authority retains ownership of a financial asset but contracts to reassign or otherwise pay over the cash flows generated by the instrument, at the same time as retaining substantially all the risks and rewards of ownership. Following a review of the Authority's financial assets and liabilities at 31 March 2012, it is considered unlikely that this change in accounting policy will have a material impact on the financial statements of the Authority. The effective date of the amendments to the standard was 1 July 2011. However, the Code of Practice does not require us to implement this amended disclosure requirement until 1 April 2012.

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

In applying the accounting policies set out in Note 48, the County Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- Municipal Mutual Insurance Co. Limited (MMI), the County Council's former insurer between November 1969 and October 1991, ceased writing insurance business owing to financial difficulties in September 1992. MMI made a scheme of arrangement with its creditors in the event of the company becoming insolvent. The MMI, along with a number of other insurers, has been involved in what has become known as the 'trigger point' litigation in relation to the interpretation of liability policy wordings concerning mesothelioma claims. The result of the litigation is seen as fundamental to the company's ability to achieve a successful run-off of claims. The Supreme Court handed down judgment in relation to the 'trigger point' litigation in March 2012 confirming that Insurers are liable for claims based upon the date of exposure to asbestos fibres. This outcome brings considerably more asbestos related claims within the period that the MMI was providing insurance cover. The judgment serves to confirm the latest financial information available for MMI showing projected net liabilities of £85m. If the scheme of arrangement is triggered by the company's directors an initial payment (levy) is likely to be requested by the scheme administrator. As the levy is now probable a Provision of £1.9m has been included in the County Council's accounts. The position continues to be regularly monitored and if it becomes probable that a further transfer of future economic benefits will be required the provision will be increased.

- During 2011/12 fifteen schools have converted to Academy status and the assets have been transferred to the Academies as 125 year finance leases. This has resulted in the land remaining on the Authority's Balance Sheet as 125 years is not a major part of the land's indefinite life, and the buildings are off the Authority's Balance Sheet as they have been leased for the major part of their remaining useful life.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the County 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 County Council's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

| **Items** | **Uncertainties** | **Effect if actual results differ from assumptions** |
|---|---|---|
| Property, Plant and 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 County Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.<br><br>The carrying value of Property, Plant and Equipment at 31 March 2012 is £937.8m | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £2.3m for every year that useful lives had to be reduced. |

| | | |
|---|---|---|
| Insurance Reserve | There is uncertainty that the County Council may have to meet potential liabilities arising from Municipal Mutual Insurance Limited (MMI) that is subject to a run-off of claims following its closure to insurance business in 1992.<br><br>Following the Supreme Court Judgment in relation to the 'trigger point' litigation of March 2012, which was not in favour of MMI, the net estimated liabilities for the company are believed to be in the region of £85m. The County Council's share of this is based upon the value of its current paid and outstanding claims. It has become probable that a levy will be required in the short term (£1.9m included as a Provision in the Council's accounts). There is a risk that any additional deficit will also have to be funded, however, this is dependent on the level of future claims. | The position is regularly reviewed to ensure that there are sufficient funds in the insurance reserve to fund future uninsured liabilities.<br><br>As part of the review in 2011/12 the MMI & Uninsured Loss Reserve has been increased by £3.5m to £5.1m to reduce the risk to the County Council of MMI related, other failed insurer related and uninsured losses. |
| 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. An independent firm of consulting actuaries is engaged to provide the County Council with expert advice about the assumptions to be applied, although ultimate responsibility for forming these assumptions remain with the County Council.<br><br>The carrying value of the Pension Liability at 31 March 2012 is £438.8m | The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £118m. A one year increase in member life expectancy compared with the assumption used would increase the liabilities by £37m.<br><br>However, the assumptions interact in complex ways. During 2011/12, the County Council's actuaries advised that the net pensions liability had decreased by £68m as a result of estimates being corrected as a result of experience and increased by £114.3m attributable to updating of the assumptions. |
| Debtors | At 31 March 2012, the County Council had a balance of sundry debtors of £21.2m and secured memo debt (elderly persons debt secured against properties) of £6.3m. Provisions for doubtful debts are maintained for certain categories of income by individual departments. However in the current economic climate it is not certain that such an allowance would be sufficient. | If collection rates were to deteriorate, a doubling of the amount of the impairment for doubtful debts would require an additional £1.7m to be set aside as an allowance. |

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

During 2011/12 fifteen schools transferred to Academy Status resulting in the net book value of the schools, £76.3m, being written out of the County Council's Balance Sheet through the Other Operating Expenditure section of the Comprehensive Income and Expenditure Statement (CIES). These entries are reversed out via the Movement in Reserves Statement and do not have an impact on the General County Fund. The County Council has no choice in whether to transfer these assets and does not receive any consideration for their transfer. Further transfers of schools to Academy Status are expected in 2012/13 and later years.

When schools become Academies the pension fund assets and liabilities of the schools, as assessed by the Actuary at the time of transfer, are transferred from the County Council's pension scheme to separate pension funds within the Local Government Pension Scheme. For 2011/12 there was an overall net reduction in liabilities to the County Council's pension scheme totalling £8.5m on settlement which has been credited to the Non Distributed Cost line in the CIES.

The Past Service Gain on the Pension Liability line of the CIES in 2010/11 shows a credit of £123.9m. This is due to a change in the pension fund benefit entitlement indexation from RPI to CPI announced by the government on 22 June 2010. This change has been recognised as a past service gain and has the effect of reducing the pension fund liabilities as at 31 March 2011.

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

The Statement of Accounts was authorised for issue by the Director of Corporate Resources on 29 June 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2012 as they provide information that is relevant to an understanding of the County Council's financial position, but do not relate to conditions at that date:

- A further thirteen schools have transferred to Academy Status by the authorised for issue date. The net book value to be written out of the County Council's Balance Sheet by this date is £57.6m.

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

| | Usable Reserves | | | |
|---|---|---|---|---|
| **2011/12** | **General County Fund Balance £m** | **Capital Receipts Reserve £m** | **Capital Grants Unapplied £m** | **Movement in Unusable Reserves £m** |
| ***Adjustments primarily involving the Capital Adjustment Account*** | | | | |
| ***Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement*** | | | | |
| Non-current asset depreciation and impairment | (45.9) | | | 45.9 |
| Revaluation losses on Property, Plant and Equipment | (19.3) | | | 19.3 |
| Amortisation of intangible assets | (0.1) | | | 0.1 |
| Capital grants and contributions | 42.5 | | | (42.5) |
| Revenue expenditure funded from capital under statute | (2.6) | | | 2.6 |
| 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 | (83.4) | | | 83.4 |
| ***Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement*** | | | | |
| Statutory provision for the financing of capital investment | 15.6 | | | (15.6) |
| Principal Repayments of transferred Debt | (2.4) | | | 2.4 |
| Capital expenditure charged against the General Fund | 6.0 | | | (6.0) |
| ***Adjustments primarily involving the Capital Grants Unapplied Account*** | | | | |
| Application of capital grants and contributions credited to the Comprehensive Income and Expenditure Statement yet to be applied | 1.9 | | (1.9) | |

| | Usable Reserves | | | |
|---|---|---|---|---|
| **2011/12** | **General County Fund Balance £m** | **Capital Receipts Reserve £m** | **Capital Grants Unapplied £m** | **Movement in Unusable Reserves £m** |
| ***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 | 7.1 | (3.5) | | (3.6) |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | 5.7 | | (5.7) |
| ***Adjustments primarily involving the Financial Instruments Adjustment 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 | 0.2 | | | (0.2) |
| ***Adjustments primarily involving the Pensions Reserve*** | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | 4.5 | | | (4.5) |
| ***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 | (0.7) | | | 0.7 |
| ***Adjustments primarily involving the Short-term Accumulating Compensated Absences Adjustments 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 | (2.6) | | | 2.6 |
| **Total Adjustments** | **(79.2)** | **2.2** | **(1.9)** | **78.9** |

| | Usable Reserves | | | |
|---|---|---|---|---|
| **2010/11 Comparative Figures** | **General County Fund Balance £m** | **Capital Receipts Reserve £m** | **Capital Grants Unapplied £m** | **Movement in Unusable Reserves £m** |
| ***Adjustments primarily involving the Capital Adjustment Account*** | | | | |
| ***Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement*** | | | | |
| Non-current asset depreciation and impairment | (41.6) | | | 41.6 |
| Revaluation losses on Property, Plant and Equipment | (14.8) | | | 14.8 |
| Amortisation of intangible assets | (0.2) | | | 0.2 |
| Capital grants and contributions | 49.0 | | | (49.0) |
| Revenue expenditure funded from capital under statute | (4.4) | | | 4.4 |
| 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 | (1.8) | | | 1.8 |
| ***Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement*** | | | | |
| Statutory provision for the financing of capital investment | 15.2 | | | (15.2) |
| Principal Repayments of transferred Debt | (2.4) | | | 2.4 |
| Capital expenditure charged against the General Fund | 3.4 | | | (3.4) |
| ***Adjustments primarily involving the Capital Grants Unapplied Account*** | | | | |
| Application of grants to capital financing transferred to the Capital Adjustment Account | | | 2.8 | (2.8) |

| | Usable Reserves | | | |
|---|---|---|---|---|
| **2010/11 Comparative Figures** | **General County Fund Balance £m** | **Capital Receipts Reserve £m** | **Capital Grants Unapplied £m** | **Movement in Unusable Reserves £m** |
| ***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 | 1.9 | (1.9) | | 0.0 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | 0.0 | 3.2 | | (3.2) |
| ***Adjustments primarily involving the Financial Instruments Adjustment 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 | 0.1 | | | (0.1) |
| ***Adjustments primarily involving the Pensions Reserve*** | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | 104.2 | | | (104.2) |
| ***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 | 0.6 | | | (0.6) |
| ***Adjustments primarily involving the Short-term Accumulating Compensated Absences Adjustments 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 | 0.1 | | | (0.1) |
| **Total Adjustments** | **109.3** | **1.3** | **2.8** | **(113.4)** |

## 8. *Unusable Reserves*

***Revaluation Reserve***

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| **Balance at 1 April** | **149.8** | **137.6** |
| Upward revaluation of assets | 16.0 | 52.8 |
| Downward revaluation of assets losses not charged to the Surplus or Deficit on the Provision of Services | (24.3) | (9.6) |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES | (0.8) | (16.9) |
| Difference between fair value depreciation and historical cost depreciation | (3.1) | (3.9) |
| **Balance at 31 March** | **137.6** | **160.0** |

***Capital Adjustment Account***

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| **Balance at 1 April** | **491.9** | **504.2** |
| ***Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:*** | | |
| Charges for depreciation of non-current assets | (38.5) | (41.9) |
| Revaluation losses on Property, Plant and Equipment | (14.8) | (19.3) |
| Amortisation of intangible assets | (0.2) | (0.2) |
| Revenue expenditure funded from capital under statute | (4.4) | (2.6) |
| 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 | (1.0) | (66.5) |
| Capital financing applied in year: | | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | 3.2 | 5.7 |
| Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 49.0 | 42.5 |
| Application of grants to capital financing from the Capital Grants Unapplied Account | 2.8 | 0.0 |
| Statutory provision for the financing of capital investment charged against the General Fund | 15.2 | 15.5 |
| Principal Repayments of transferred Debt | (2.4) | (2.3) |
| Capital expenditure charged against the General County Fund Balance | 3.4 | 6.0 |
| **Balance at 31 March** | **504.2** | **441.1** |

***Deferred Capital Receipts Reserve***

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| **Balance at 1 April** | **0.0** | **0.0** |
| Deferred Capital Receipts recognised in year | 0.0 | 3.6 |
| **Balance at 31 March** | **0.0** | **3.6** |

***Financial Instruments Adjustment Account***

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| **Balance at 1 April** | **(6.6)** | **(6.5)** |
| ***Amounts 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:*** | | |
| Additional interest on stepped rate loans | 0.0 | 0.0 |
| Annual write down of premiums paid on rescheduled debt | 0.8 | 0.9 |
| Annual write down of discounts received on rescheduled debt | (0.7) | (0.7) |
| **Balance at 31 March** | **(6.5)** | **(6.3)** |

***Pensions Reserve***

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| **Balance at 1 April** | **(654.3)** | **(330.1)** |
| Actuarial gains or losses on pensions assets and liabilities | 220.0 | (113.2) |
| 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 | 65.9 | (32.4) |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 38.3 | 36.9 |
| **Balance at 31 March** | **(330.1)** | **(438.8)** |

***Collection Fund Adjustment Account***

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| **Balance at 1 April** | **0.8** | **1.4** |
| Amounts 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 | 0.6 | (0.7) |
| **Balance at 31 March** | **1.4** | **0.7** |

***Short-term Accumulating Compensated Absences Adjustment Account***

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| **Balance at 1 April** | **(12.3)** | **(12.2)** |
| Settlement or cancellation of accrual made at the end of the preceding year | 12.3 | 12.2 |
| Amounts accrued at the end of the current year | (12.2) | (14.8) |
| **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** | **0.1** | **(2.6)** |
| **Balance at 31 March** | **(12.2)** | **(14.8)** |

## *9. Movement in Reserves*

### *General County Fund Balance*

The balance of the fund as at 31 March 2012, £32.0m (2010/11 £31.9m), contains the following earmarked sums:

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Delegated Funding for Schools | 17.4 | 18.1 |
| Carry forward of underspendings across other services | 5.1 | 3.4 |
| Carry forward of resources for funding of Capital | 0.1 | 0.1 |
| **Earmarked Reserves as at 31 March** | **22.6** | **21.6** |
| Uncommitted balance | 9.3 | 10.4 |
| **Balance at 31 March** | **31.9** | **32.0** |

***Earmarked Revenue Reserves***

| | Balance at 31 March 2010 £m | Transfers From Revenue £m | Transfers To Revenue £m | Balance at 31 March 2011 £m | Transfers From Revenue £m | Transfers To Revenue £m | Balance at 31 March 2012 £m |
|---|---|---|---|---|---|---|---|
| Insurance | 7.7 | 6.2 | (2.3) | 11.6 | 4.5 | (2.0) | 14.1 |
| Renewals of Vehicles and Equipment | 7.1 | 2.1 | (1.6) | 7.6 | 2.3 | (1.1) | 8.8 |
| Adult & Social Care Developments | 4.3 | 3.7 | (0.5) | 7.5 | 0.7 | (0.2) | 8.0 |
| PCT / Public Health in Leicestershire | 0.0 | 3.9 | 0.0 | 3.9 | 2.7 | (2.7) | 3.9 |
| PCT Initiatives | 0.0 | 0.0 | 0.0 | 0.0 | 1.5 | 0.0 | 1.5 |
| Heath & Social Care Outcomes (PCT Monies) | 0.0 | 0.0 | 0.0 | 0.0 | 8.7 | 0.0 | 8.7 |
| Supporting People | 1.3 | 0.5 | 0.0 | 1.8 | 0.0 | 0.0 | 1.8 |
| Place Based Budget | 0 | 4.0 | 0.0 | 4.0 | 0.3 | (0.3) | 4.0 |
| LAA | 7.4 | 2.0 | (4.2) | 5.2 | 0.1 | (5.0) | 0.3 |
| East Midlands Council | 0.6 | 0.8 | (0.4) | 1.0 | 0.2 | (0.5) | 0.7 |
| Central Maintenance Fund | 1.0 | 0.2 | (0.2) | 1.0 | 0.4 | 0.0 | 1.4 |
| Change Management | | | | | | | |
| - Organisational Change | 5.7 | 0.5 | (3.3) | 2.9 | 0.0 | (1.2) | 1.7 |
| - Invest to save | 10.6 | 6.4 | (7.4) | 9.6 | 18.2 | (5.5) | 22.3 |
| Children and Young People | | | | | | | |
| - Sure Start | 1.5 | 0.0 | (0.6) | 0.9 | 0.0 | (0.2) | 0.7 |
| - Dedicated Schools Grant | 3.7 | 2.0 | (2.8) | 2.9 | 1.6 | (2.7) | 1.8 |
| - Area Special School | 0 | 2.0 | 0.0 | 2.0 | 0.0 | 0.0 | 2.0 |
| - BSF/ Melton & Vale of Belvoir Review | 1.0 | 0.0 | (0.5) | 0.5 | 0.0 | (0.1) | 0.4 |
| Highways & Waste Management | | | | | | | |
| - Waste Strategy Implementation revenue | 3.5 | 1.9 | 0.0 | 5.4 | 0.0 | (0.2) | 5.2 |
| capital | 0.7 | 0.0 | 0.0 | 0.7 | 0.0 | (0.7) | 0.0 |
| - Commuted Sums | 1.0 | 0.1 | 0.0 | 1.1 | 0.4 | 0.0 | 1.5 |
| Shared Services | 0.2 | 2.8 | 0.0 | 3.0 | 0.0 | (0.7) | 2.3 |
| Transitional Grant Aided Fund | 0.0 | 5.0 | 0.0 | 5.0 | 0.0 | (1.5) | 3.5 |
| Community Planning | 0.0 | 0.0 | 0.0 | 0.0 | 2.7 | 0.0 | 2.7 |
| LCC Mortgage Scheme | 0.0 | 0.0 | 0.0 | 0.0 | 2.0 | 0.0 | 2.0 |
| Other (reserves below £1m) | 5.6 | 6.6 | (3.3) | 8.9 | 7.5 | (3.1) | 13.3 |
| **TOTAL** | **62.9** | **50.7** | **(27.1)** | **86.5** | **53.8** | **(27.7)** | **112.6** |

*Details of the Main Earmarked Reserves*

***Insurance***
The insurance policies held by the County Council require a significant level of self insurance, the level of this being recommended by independent advisers. The monies set aside for self insurance are split between a provision representing outstanding, unsettled claims at 31 March 2012 and a reserve to meet future claims.

***Renewal of Vehicles and Equipment***
Resources for the funding of replacement vehicles and equipment.

***Adult & Social Care***
Unapplied grants are to be utilised to fund one off ‘pump priming’ initiatives, invest to save projects and provide a resource to finance potential risks affecting the service.

***PCT/ Health & Social Care Outcomes***
Funding from the primary care trust relating to joint public health initiatives within Leicestershire.

***Place Based Budget***
A contribution to the initial investment in undertaking the (former) Total Place project to reduce substance misuse and improve access to services, leading to savings of between £5.25m and £6.75m per year by 2013/14.

***Organisational Change / Invest to Save / Severance***
A programme of projects to deliver efficiency savings and service improvements across the County Council and to fund potential restructuring costs of reconfiguring those services.

***Children and Young People’s Services***
Delegated dedicated schools grant ring fenced for schools.

***Waste Strategy***
Resources have been set aside from underspends to finance the implementation of a County wide waste strategy to increase recycling and reduce landfill.

***Transitional Grant Aided Fund***
Finance to ease the impact of significant reductions in government grants to Children and Young People’s Services and Youth Justice and Safer Communities budgets.

***Local Authority Mortgage Scheme***
New reserve established to make it easier for first time buyers to obtain mortgages to stimulate the local housing market and benefit the wider local economy.

## 10. Other Operating Expenditure

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Flood Defence Levies | 0.2 | 0.3 |
| (Gains)/losses on the disposal of non-current assets (Excluding Academies) | (0.1) | 0.0 |
| (Gains)/losses on the disposal of Academies | 0.0 | 76.3 |
| **Total** | **0.1** | **76.6** |

## 11. Financing and Investment Income and Expenditure

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Interest payable and similar charges | 17.3 | 17.4 |
| Pensions interest cost and expected return on pensions assets | 17.2 | 5.4 |
| Interest receivable and similar income | (5.0) | (4.6) |
| Other investment income (surplus or deficit on Trading Accounts) | (0.3) | (1.7) |
| **Total** | **29.2** | **16.5** |

## 12. Taxation and non specific grant incomes

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Council tax income | (237.7) | (239.3) |
| Non domestic rates | (87.9) | (83.1) |
| Non ringfenced government grants | (40.1) | (33.7) |
| Capital grants and contributions | (49.0) | (44.3) |
| **Total** | **(414.7)** | **(400.4)** |

## *13. Pensions- Revenue Costs*

### *a) Local Government Pension Scheme – A defined benefit scheme*

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

The County Council participates in the Local Government Pension Scheme (LGPS) for employees, administered locally by Leicestershire County Council – this is a funded defined benefit final salary scheme, meaning that the County Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

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

The IAS 19 Balance Sheet position as at 31 March 2012 has deteriorated since last year principally because financial assumptions as at 31 March 2012 are less favourable than they were at 31 March 2011. The discount rate used to value pension fund benefits has decreased, caused by a fall in corporate bond yields and a revised methodology. All else being equal this serves to increase the value of the liabilities and have a negative impact on the IAS 19 position. This was somewhat mitigated by the extension to the public sector pay restrictions until 2015 which reduced the County Council's pension liabilities. In addition investment performance has been lower than expected which has had a negative impact on the expected value of the County Council's pension assets. Overall the net liability on the fund has increased to £438.8m (31 March 2011, £330.1m).

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement during the year:

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| **Comprehensive Income and Expenditure Statement** | | |
| Cost of Services | | |
| Current service cost | 37.7 | 32.1 |
| Past service cost/(gain) | (122.4) | 0.0 |
| Settlements and Curtailments | 1.6 | (5.2) |
| Financing and Investment Income and Expenditure | | |
| Interest cost | 72.5 | 60.8 |
| Expected return on assets | (55.3) | (55.3) |
| Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services | (65.9) | 32.4 |
| Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | | |
| Actuarial gains and losses | (220.0) | 113.2 |
| Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | **(285.9)** | **145.6** |
| **Movements in Reserves Statement** | | |
| Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with IAS 19 | **104.2** | **4.5** |
| **Actual amount charged against the County Fund Balance for Pensions in the year** | | |
| Employers contributions payable to scheme | 35.2 | 33.6 |
| Unfunded benefits | 3.1 | 3.3 |
| Total amount charged against the County Fund Balance for Pensions in the year | **38.3** | **36.9** |

The cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure in the actuarial gains or losses on pension assets and liabilities line was at 31 March 2011/12 a loss of £407.5m and at 31 March 2010/11 was a loss of £293.2m.

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

The present value of the liabilities (defined benefit obligation) of the County Council at 31 March is as follows:

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| **As at 1 April** | **(1,427.6)** | **(1,110.6)** |
| Current service cost | (37.7) | (32.1) |
| Interest Cost | (72.5) | (60.8) |
| Contributions by scheme participants | (12.6) | (11.8) |
| Actuarial (Losses) / Gains | 236.2 | (62.8) |
| Benefits paid | 82.8 | 47.1 |
| Past service costs | 122.4 | 0.0 |
| Entity combinations | 0.0 | 0.0 |
| (Losses) / Gains on curtailments | (1.6) | (3.1) |
| (Losses) / Gains on settlements | 0.0 | 15.0 |
| **As at 31 March** | **(1,110.6)** | **(1,219.1)** |

The fair value of the assets of the County Council at 31 March is as follows:

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| **As at 1 April** | **773.3** | **780.5** |
| Expected rate of return | 55.3 | 55.3 |
| Actuarial Gains / (Losses) | (16.1) | (51.5) |
| Employer contributions | 35.2 | 34.8 |
| Contributions by scheme participants | 12.6 | 11.8 |
| Benefits paid | (82.8) | (47.1) |
| Contributions in respect of unfunded benefits | 3.0 | 3.2 |
| (Losses) / Gains on settlements | 0.0 | (6.7) |
| **As at 31 March** | **780.5** | **780.3** |

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.

The actual return on scheme assets in the year was £4.0m (2010/11 gain of £66.3m).

The scheme history of the pension fund is as follows:

| | 2007/08 £m | 2008/09 £m | 2009/10 £m | 2010/11 £m | 2011/12 £m |
|---|---|---|---|---|---|
| Present value of liabilities: | (887.3) | (878.3) | (1,427.6) | (1,110.6) | (1,219.1) |
| Fair value of assets: | 743.7 | 552.3 | 773.3 | 780.5 | 780.3 |
| **Surplus / (Deficit)** | **(143.6)** | **(326.0)** | **(654.3)** | **(330.1)** | **(438.8)** |

The liability shows the underlying commitment that the County Council has in the long run to pay post employment (retirement) benefits. This total liability of £438.8m has a substantial impact on the net worth of the County Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit will result in the deficit being made good by increased contributions by the employer, over the remaining working life of employees, as assessed by the actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the County Council in the year to 31 March 2013 is £32.0m.

The figures in this note incorporate staff of the Eastern Shires Purchasing Organisation (ESPO) whose staff are employed by Leicestershire County Council but whose costs are excluded from these accounts as these costs are included in ESPO's own accounts.

***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 dependant on assumptions about mortality rates, salary levels, etc. The County Council's Pension fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the County Council fund being based on the latest full valuation of the Pension Fund as at 31 March 2010.

The principal assumptions used by the actuary have been:

| | 31 March 2011 | 31 March 2012 |
|---|---|---|
| Long-term expected rate of return on assets: | | |
| Equity investments | 7.5% | 6.2% |
| Bonds | 4.9% | 3.9% |
| Property | 5.5% | 4.4% |
| Cash | 4.6% | 3.5% |
| Mortality assumptions (in years): | | |
| Longevity at 65 for current pensioners: | | |
| ▪ Men | 20.9 | 20.9 |
| ▪ Women | 23.3 | 23.3 |
| Longevity at 65 for future pensioners: | | |
| ▪ Men | 23.3 | 23.3 |
| ▪ Women | 25.6 | 25.6 |
| Rate of inflation | 2.8% | 2.5% |
| Rate of increases in salaries | 5.1% | 4.8% |
| Rate of increase in pensions | 2.8% | 2.5% |
| Rate for discounting scheme liabilities | 5.5% | 4.8% |
| Proportion of employees opting to commute part of their annual pension to a retirement lump sum: | | |
| Pre April 2008 Service | 50.0% | 50.0% |
| Post April 2008 Service | 75.0% | 75.0% |

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

| | 31 March 2011 | 31 March 2012 |
|---|---|---|
| Equity investments | 82% | 65% |
| Bonds | 7% | 16% |
| Property | 11% | 11% |
| Cash | 0% | 8% |

### c) *History of experience gains and losses*

These are events that have not coincided with actuarial assumptions. Experience gains and losses, are a component of the annual actuarial gain or loss calculated by the actuary.

The experienced gains/losses identified as movements on the Pensions Reserve for the last five years are analysed into the following categories, measured as a percentage of assets or liabilities.

| | **2007/08 %** | **2008/09 %** | **2009/10 %** | **2010/11 %** | **2011/12 %** |
|---|---|---|---|---|---|
| Difference between the expected and actual return on asset | (11.0) | (46.5) | 22.0 | (2.1) | (6.6) |
| Experience gains and (losses) on liabilities | (7.2) | 0.1 | (0.1) | 4.0 | (1.4) |

### d) *Teachers and Lecturers*

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

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by Local Authorities. The County 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 2011/12 the County Council paid £26.2m (2010/11 £28.0m) to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 14.1% (2010/11 14.1%) of teachers' pensionable pay. This is also the amount recognised as an expense in the Comprehensive Income and Expenditure Statement with regards to this scheme. In addition, the County Council is responsible for all pension payments relating to pension enhancements for added years service it has awarded, together with the related increases. In 2011/12 these amounted to £2.3m (2010/11 £2.1m), representing 1.18% (2010/11 1.02%) of pensionable pay.

The County 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 13b.

## *14. Movements in Property, Plant and Equipment, Intangible Assets and Assets Held for Sale*

| | Land and Buildings £m | Vehicles, Plant, Furniture & Equipment £m | Infrastructure £m | Community Assets £m | Assets Under Construction £m | Surplus Assets £m | Total £m | Intangible Assets (Software Licences) £m | Assets Held for Sale £m |
|---|---|---|---|---|---|---|---|---|---|
| **Net book value as at 31 March 2010** | **704.1** | **3.3** | **233.9** | **11.7** | **17.6** | **0.0** | **970.6** | **0.5** | **0.2** |
| Additions | 35.9 | 4.5 | 21.5 | 0.0 | 13.7 | 0.0 | 75.6 | 0.3 | 0.0 |
| Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve | (10.4) | 0.0 | 0.0 | 0.0 | 0.0 | 2.1 | (8.3) | 0.0 | 0.0 |
| Derecognition-Disposals | (1.8) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (1.8) | 0.0 | 0.0 |
| Transfers between asset categories | 13.7 | 0.0 | 0.0 | 0.0 | (14.4) | 0.3 | (0.4) | 0.0 | 0.4 |
| Capital expenditure not increasing value | (14.2) | (3.7) | 0.0 | 0.0 | 0.0 | 0.0 | (17.9) | (0.3) | 0.0 |
| Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit on the Provision of Services | (14.6) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (14.6) | 0.0 | (0.2) |
| **Book value as at 31 March 2011** | **712.7** | **4.1** | **255.4** | **11.7** | **16.9** | **2.4** | **1,003.2** | **0.5** | **0.4** |
| Less: Depreciation this year | | | | | | | | | |
| Depreciation written out to the Revaluation Reserve | (3.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (3.1) | 0.0 | 0.0 |
| Depreciation / Amortisation written out to the Surplus/ Deficit on the Provision of Services | (12.3) | (0.9) | (7.0) | 0.0 | 0.0 | 0.0 | (20.2) | (0.2) | 0.0 |
| Less: Writing down leased assets | (0.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 |
| **Net book value as at 31 March 2011** | **697.2** | **3.2** | **248.4** | **11.7** | **16.9** | **2.4** | **979.8** | **0.3** | **0.4** |

| | Land and Buildings £m | Vehicles Plant, Furniture & Equipment £m | Infrastructure £m | Community Assets £m | Assets Under Construction £m | Surplus Assets £m | Total £m | Intangible Assets (Software Licences) £m | Assets Held for Sale £m |
|---|---|---|---|---|---|---|---|---|---|
| **Net book value as at 31 March 2011** | **697.2** | **3.2** | **248.4** | **11.7** | **16.9** | **2.4** | **979.8** | **0.3** | **0.4** |
| Additions | 34.0 | 4.4 | 19.0 | 0.0 | 1.7 | 0.0 | 59.1 | 0.5 | 0.0 |
| Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve | 42.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 43.1 | 0.0 | 0.0 |
| Derecognition-Disposals | (82.4) | 0.0 | 0.0 | 0.0 | (1.0) | 0.0 | (83.4) | 0.0 | 0.0 |
| Transfers between asset categories | 9.0 | 0.0 | 0.0 | 0.0 | (10.7) | 1.6 | (0.1) | 0.0 | 0.1 |
| Capital expenditure not increasing value | (18.4) | (2.5) | 0.0 | 0.0 | 0.0 | 0.0 | (20.9) | (0.1) | 0.0 |
| Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit on the Provision of Services | (19.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (19.1) | 0.0 | (0.2) |
| **Book value as at 31 March 2012** | **663.1** | **5.1** | **267.4** | **11.7** | **6.9** | **4.3** | **958.5** | **0.7** | **0.3** |
| Less: Depreciation this year | | | | | | | | | |
| Depreciation written out to the Revaluation Reserve | (3.9) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (3.9) | 0.0 | 0.0 |
| Depreciation / Amortisation written out to the Surplus/ Deficit on the Provision of Services | (12.5) | (0.9) | (7.5) | 0.0 | 0.0 | 0.0 | (20.9) | (0.1) | 0.0 |
| Less: Writing down leased assets | (0.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 |
| **Net book value as at 31 March 2012** | **646.6** | **4.2** | **259.9** | **11.7** | **6.9** | **4.3** | **933.6** | **0.6** | **0.3** |

***Depreciation/Amortisation***

Where depreciation/amortisation is provided for, assets are depreciated/amortised using the straight line method over the following periods:

- Intangible assets – up to 5 years.
- Buildings - varies from asset to asset (the remaining useful economic life of each asset is reviewed at the same time as the revaluation is completed, new builds are usually estimated to have a useful life of 70 years).
- Infrastructure - 40 years.
- Vehicles, plant, furniture and equipment - estimated useful life (averaging around 5 years).
- Land, community assets, assets under construction, surplus assets and assets held for sale – are held at cost or market value or have an indefinite life and are not depreciated.

***Capital commitments***

The County Council allocates and controls its available resources for capital expenditure via a rolling four year capital programme. The extent to which expenditure will be incurred in future years for schemes in the various annual programmes is as follows:

| | **2012/13 £m** | **2013/14 and later £m** |
|---|---|---|
| 2011/12 and earlier year schemes | 10.7 | 6.0 |

Major contracts entered into during 2011/12 and earlier, where significant payments remain to be made to contractors, include:

| | **£m** |
|---|---|
| **Children and Young People's Service**<br>Charnwood New Area Special School | 9.3 |
| **Adults and Communities**<br>Leicester Forest East Library | 0.6 |
| **Corporate Resources**<br>Office Accommodation Strategy – Invest to Save<br>Industrial Properties Extension | 1.8<br>0.5 |

### *Academies, Foundation, Trust, Church and Other schools*

Foundation and Trust schools remain vested in the Governing Bodies of the individual Schools. Schools which have converted to Academies have taken the assets on 125 year finance leases. Foundation, Trust schools and Academies have not been included in the Balance Sheet, and therefore no capital charges will have been applied to the accounts. The following table shows the number and valuation as at 31 March of Foundation, Trust schools and Academies.

| | 2010/11 | | 2011/12 | |
|---|---|---|---|---|
| | **31 March Number** | **31 March £m** | **31 March Number** | **31 March £m** |
| Foundation schools | 4 | 25.1 | 3 | 19.3 |
| Trust schools | 2 | 14.3 | 3 | 31.3 |
| Academies | 0 | 0 | 15 | 82.1 |
| Total | 6 | 39.4 | 21 | 132.7 |

Church and Other schools, which are not owned by the Authority are treated on the same basis as Foundation and Trust schools, i.e. have not been included in the Balance Sheet, and therefore no capital charges will have been applied to the accounts.

### *Revaluations*

The Authority carries out a rolling programme that ensure that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations are carried out by our internally RICS qualified valuers. Accounting Policy 6 within Note 48 provides further details.

| | **Land and Buildings £m** | **Surplus Assets £m** | **Total £m** |
|---|---|---|---|
| Carried at Historical Cost | 28.4 | 0.0 | 28.4 |
| Valued at fair value as at: | | | |
| 31 March 2012 | 311.1 | 0.7 | 311.8 |
| 31 March 2011 | 167.6 | 2.5 | 170.1 |
| 31 March 2010 | 74.5 | 0.1 | 74.6 |
| 31 March 2009 | 32.8 | 0.6 | 33.4 |
| 31 March 2008 | 32.2 | 0.4 | 32.6 |
| **Total Cost or Valuation** | **646.6** | **4.3** | **650.9** |

## *15. Movements in Heritage Assets*

| | Art Collection £m | Archaeo-logical Collection £m | Fashion Collection £m | Working Life Collection £m | Civic Collection £m | Total £m |
|---|---|---|---|---|---|---|
| **Net book value as at 1 April 2010** | **2.9** | **0.3** | **0.1** | **0.5** | **0.2** | **4.0** |
| Additions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Transfers between asset categories | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit on the Provision of Services | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| **Book value as at 31 March 2011** | **2.9** | **0.3** | **0.1** | **0.5** | **0.2** | **4.0** |
| Additions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | **0.2** |
| Revaluation Increases/ (Decreases) recognised in the Surplus/ Deficit on the Provision of Services | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| **Book value as at 31 March 2012** | **2.9** | **0.4** | **0.1** | **0.6** | **0.2** | **4.2** |

As per the accounting policy for Heritage Assets within note 48 assets and additions are recognised at cost and are revalued based on 50% of the insurance valuations which are reviewed annually. There have been no additions or disposals in 2010/11 or 2011/12. Due to no known additions or disposals since 2007, a summary of the movements in Heritage Assets would show no movements. Where disposals occur, sale proceeds will be accounted for in accordance with statutory requirements for the sale of non-current assets as these assets would meet the definition of a capital receipt.

## 16. *Financial Instruments*

The borrowings, investments, debtors, creditors, finance lease liabilities and cash are disclosed in the Balance Sheet and consist of the following categories of financial instrument:

| | Long Term | Current | Long Term | Current |
|---|---|---|---|---|
| | 31 March 2011 £m | 31 March 2011 £m | 31 March 2012 £m | 31 March 2012 £m |
| ***Financial Liabilities: (Borrowings)*** | | | | |
| at Amortised Cost | 258.6 | 16.3 | 246.2 | 16.3 |
| at Fair Value | 63.1 | 0.0 | 63.0 | 0.0 |
| **Total Borrowings** | **321.7** | **16.3** | **309.2** | **16.3** |
| | | | | |
| ***Financial Assets: (Investments)*** | | | | |
| at Amortised Cost | 25.0 | 54.8 | 25.0 | 59.0 |
| at Fair Value | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total Investments** | **25.0** | **54.8** | **25.0** | **59.0** |
| | | | | |
| ***Debtors:*** | | | | |
| Loans and Receivables | 49.6 | 0.0 | 49.8 | 0.0 |
| Financial Assets carried at contract amounts | 0.0 | 64.6 | 0.0 | 64.8 |
| **Total Debtors** | **49.6** | **64.6** | **49.8** | **64.8** |
| | | | | |
| **Total Financial Liabilities carried at contract amount** | **5.1** | **122.9** | **4.5** | **106.4** |
| | | | | |
| **Total Finance Lease Liabilities** | **1.8** | **0.1** | **1.7** | **0.1** |
| | | | | |
| **Total Cash and Cash Equivalents** | **0.0** | **45.9** | **0.0** | **48.9** |

Gains and Losses recognised in the Comprehensive Income and Expenditure Statement:

| | 2010/11 | | 2011/12 | |
|---|---|---|---|---|
| | At Amortised Cost £m | At Fair Value £m | At Amortised Cost £m | At Fair Value £m |
| **Financial Liabilities** | | | | |
| Interest Paid | 14.4 | 2.7 | 14.4 | 2.7 |

| | 2010/11 | | 2011/12 | |
|---|---|---|---|---|
| | Loans and Receivables £m | At Fair Value £m | Loans and Receivables £m | At Fair Value £m |
| **Financial Assets** | | | | |
| Interest Received | 2.6 | 0.0 | 2.3 | 0.0 |

***Fair Value of Assets and Liabilities carried at amortised cost***

Financial liabilities and financial assets represented by Borrowings and Investments are carried in the Balance Sheet at amortised cost or fair value. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments using the following assumptions:

- PWLB and Market debt; estimated interest rates at 31 March 2012 for new debt with the same maturity date from comparable lenders.
- Investments; long term – estimated interest rates at 31 March 2012 for equivalent loans.
- Investments; short term – carrying amounts in the Balance Sheet approximate to fair value.

The fair values calculated are as follows:

| | 31st March 2012 | |
|---|---|---|
| | Carrying Amount £m | At Fair Value £m |
| Financial Liabilities | 325.5 | 394.9 |
| Financial Assets | 128.4* | 128.9 |

*The value of financial assets shown in this table excludes investments of residents in care.

The fair value of financial liabilities is more than the carrying amount because the County Council's portfolio of loans includes a number of fixed rate loans where the interest payable is higher than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the County Council would have to pay if the lenders requested or agreed to early repayment of the loans.

Financial assets - fair value is higher than the carrying amount because the County Council holds investments where the interest rate is higher than current market rate.

## *17. Inventories*

| | 31 March 2011 £m | 31 March 2012 £m |
|---|---|---|
| ***Inventories:*** | | |
| Highways brought forward | 0.7 | 0.9 |
| Purchases in Year | 2.4 | 2.4 |
| Issues in Year | (2.2) | (2.4) |
| **Highways carried forward** | **0.9** | **0.9** |
| Children & Young People's Service | 0.2 | 0.2 |
| Other Services | 0.2 | 0.2 |
| **CYPS & Other Services carried forward** | **0.4** | **0.4** |
| **Sub Total** | **1.3** | **1.3** |
| ***Work in Progress:*** | | |
| Highways | 0.0 | 0.1 |
| **Total** | **1.3** | **1.4** |

## *18. Investments*

Surplus cash balances are mainly invested in short term deposits with a range of banks and other financial institutions. Included within this amount is £6.1m (2010/11 £4.6m) which is invested on behalf of ESPO and £3.4m (2010/11 £2.3m) on behalf of residents in care homes. Both of these amounts are also included within the Creditors line on the Balance Sheet.

## *19. Long-Term Debtors*

| | 31 March 2011 £m | 31 March 2012 £m |
|---|---|---|
| ***Long Term Debtors (amounts falling due after one year)*** | | |
| Outstanding debt relating to transferred services (e.g. Unitary Authority, Higher Education establishments, Police, ESPO) | 45.0 | 42.7 |
| Accommodation Charges at Elderly Persons Homes | 3.1 | 3.1 |
| Other Long Term Debtors | 1.5 | 4.0 |
| **Total** | **49.6** | **49.8** |

## 20. Short-Term Debtors

| Short – Term Debtors | 31 March 2011 | | | 31 March 2012 | | |
|---|---|---|---|---|---|---|
| | Debtors £m | Payments in Advance £m | Total £m | Debtors £m | Payments in Advance £m | Total £m |
| Central Government Bodies | 7.6 | 0.0 | 7.6 | 7.1 | 0.0 | 7.1 |
| Other Local Authorities | 13.5 | 0.3 | 13.8 | 17.8 | 0.0 | 17.8 |
| NHS Bodies | 0.9 | 0.0 | 0.9 | 4.3 | 0.0 | 4.3 |
| Public Corporations and Trading Funds | 0.0 | 0.5 | 0.5 | 0.2 | 0.0 | 0.2 |
| Other Entities and Individuals | 33.9 | 7.9 | 41.8 | 26.3 | 9.1 | 35.4 |
| **Total** | **55.9** | **8.7** | **64.6** | **55.7** | **9.1** | **64.8** |

## 21. Cash and Cash Equivalents

| | 31 March 2011 £m | 31 March 2012 £m |
|---|---|---|
| ***Net Cash Balance at Year End:*** | | |
| School & Imprest Accounts | 5.8 | 2.0 |
| Main Bank Accounts | (0.1) | (0.8) |
| Short-Term Deposits with Banks and Building Societies | 40.2 | 47.7 |
| **Cash and Cash Equivalents** | **45.9** | **48.9** |

These figures include uninvested cash held on behalf of residents in Care Homes £0.9m (2010/11 £0.7m)

## 22. Short-Term Creditors

| Short – Term Creditors | 31 March 2011 | | | 31 March 2012 | | |
|---|---|---|---|---|---|---|
| | Creditors £m | Receipts in Advance £m | Total £m | Creditors £m | Receipts in Advance £m | Total £m |
| Central Government Bodies | 18.4 | 5.7 | 24.1 | 17.4 | 0.4 | 17.8 |
| Other Local Authorities | 11.9 | 0.7 | 12.6 | 9.6 | 0.7 | 10.3 |
| NHS Bodies | 0.8 | 0.2 | 1.0 | 0.2 | 0.2 | 0.4 |
| Public Corporations and Trading Funds | 0.0 | 0.2 | 0.2 | 0.1 | 0.4 | 0.5 |
| Other Entities and Individuals | 70.8 | 11.0 | 81.8 | 64.1 | 12.2 | 76.3 |
| **Total** | **101.9** | **17.8** | **119.7** | **91.4** | **13.9** | **105.3** |

## 23. Provisions

| Short Term | Balance at 31 March 2011 | Additional provisions during the year | Amounts used during the year | Balance at 31 March 2012 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Insurance: | | | | |
| Fire | 0.2 | 0.2 | (0.2) | 0.2 |
| Public/Employers Liability | 2.4 | 0.0 | (1.7) | 0.7 |
| Fidelity & Money | 0.0 | 0.0 | 0.0 | 0.0 |
| Uninsured Losses | 0.0 | 1.9 | 0.0 | 1.9 |
| LMS Insurance Provision | 0.4 | 0.3 | (0.6) | 0.1 |
| | **3.0** | **2.4** | **(2.5)** | **2.9** |
| Redundancy Provision | 1.0 | 1.6 | (1.0) | 1.6 |
| Leased Car Provision | 0.1 | 0.6 | (0.6) | 0.1 |
| CRC Liability | 0.0 | 0.8 | 0.0 | 0.8 |
| A&C Residential Care | 0.0 | 2.5 | 0.0 | 2.5 |
| Property Maintenance | 0.0 | 4.4 | (4.4) | 0.0 |
| Other | 0.1 | 0.0 | 0.0 | 0.1 |
| | **1.2** | **9.9** | **(6.0)** | **5.1** |
| **Total Short Term** | **4.2** | **12.3** | **(8.5)** | **8.0** |

| Long Term | Balance at 31 March 2011 | Additional provisions during the year | Amounts used during the year | Balance at 31 March 2012 |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| Insurance: | | | | |
| Fire | 0.2 | 0.0 | 0.0 | 0.2 |
| Public/Employers Liability | 2.0 | 2.4 | 0.0 | 4.4 |
| LMS Insurance Provision | 0.1 | 0.0 | (0.1) | 0.0 |
| | **2.3** | **2.4** | **(0.1)** | **4.6** |
| A&C Mental Health Refunds | 0.4 | 0.0 | 0.0 | 0.4 |
| Leased Car Provision | 0.3 | 1.2 | (1.3) | 0.2 |
| Other | 0.3 | 0.0 | (0.2) | 0.1 |
| | **1.0** | **1.2** | **(1.5)** | **0.7** |
| **Total Long Term** | **3.3** | **3.6** | **(1.6)** | **5.3** |

| | | | | |
|---|---|---|---|---|
| **Total Short and Long Term Provisions** | **7.5** | **15.9** | **(10.1)** | **13.3** |

### *Details of Provisions Held*

***Insurance***
The insurance policies held by the County Council require a significant level of self insurance, the level of this being recommended by independent advisers. The monies set aside for self insurance are split between a provision representing outstanding, unsettled claims at 31 March 2012 and a reserve to meet future claims. The provision is expected to be used within the next seven years.

***Leased Car Provision***
Sum to match the difference between the termination costs and the sale proceeds at the end of the lease period.

***Adults & Communities Mental Health: Refunds***
Provides for refunds to people with mental health difficulties, who have been charged for residential and nursing care, for which a legal judgement has been made to repay the levy charged.

***Redundancy Provision***
Provides for the termination costs of employees where the Authority is demonstrably committed as at 31 March 2012 where the timing or amounts are uncertain.

***Carbon Reduction Commitment (CRC) Liability***
Provision established to fund the retrospective purchase of CRC allowances that are based on emissions, i.e. carbon dioxide produced as energy is used.

***Adults & Communities Residential Care***
Provision to meet the costs of increases in residential care charges to be confirmed for 2011/12.

## 24. Reconciliation of the Surplus on the Comprehensive Income and Expenditure Statement to Revenue Activities Cash Flow

| | 2010/11 £m | | 2011/12 £m | |
|---|---|---|---|---|
| ***Non cash transactions:*** | | | | |
| Movement on provisions | (1.0) | | (5.8) | |
| Movement on pensions (IAS19) | 104.2 | | 4.5 | |
| Depreciation of fixed assets and impairment | (56.7) | | (65.3) | |
| Gain or Loss on disposal of non-current assets (Incl Academies) | 0.1 | | (76.3) | |
| Movement on Financial Instruments Adjustment Account | 0.1 | | 0.2 | |
| | | 46.7 | | (142.7) |
| ***Revenue items on an accruals basis:*** | | | | |
| Change in creditors | (5.4) | | 11.2 | |
| Change in debtors | 6.6 | | (0.9) | |
| Change in long term debtors | (2.4) | | (1.7) | |
| Change in Inventories | 0.2 | | 0.1 | |
| Change in landfill allowances | 0.1 | | (0.1) | |
| | | (0.9) | | 8.6 |
| **Total adjustments to net surplus or deficit on the provision of services on non cash movements:** | | **45.8** | | **(134.1)** |
| ***Items classified elsewhere in the statement:*** | | | | |
| Movement in Accrued Interest | 2.4 | | 1.8 | |
| Servicing of finance | (12.3) | | (12.8) | |
| Principal repayment on transferred debt | (2.4) | | (2.3) | |
| Movement on the Collection Fund Adjustment Account | 0.6 | | (0.7) | |
| Capital Grants Received | 49.0 | | 42.5 | |
| **Total adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities** | | **37.3** | | **28.5** |

## 25. Cash Flow Statement- Operating Activities

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Interest received | (7.5) | (6.5) |
| Interest Paid | 17.4 | 17.5 |
| **Net Cash Flows from Operating Activities** | **9.9** | **11.0** |

## 26. Cash Flow Statement- Investing Activities

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Purchase of property, plant and equipment, investment property and intangible assets | 78.0 | 68.9 |
| Purchase of short-term and long-term investments | 0.0 | 6.1 |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (1.9) | (7.1) |
| Proceeds from short-term and long-term investments | (14.8) | 0.0 |
| Capital Grants and Contributions | (49.0) | (42.5) |
| Other receipts from investing activities | (0.6) | 0.7 |
| **Net Cash Flows from Investing Activities** | **11.7** | **26.1** |

## 27. Cash Flow Statement- Financing Activities

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Cash receipts of short-term and long-term borrowing | (10.0) | 0.0 |
| Repayments of short-term and long-term borrowing | 0.5 | 12.5 |
| **Net Cash Flows from Financing Activities** | **(9.5)** | **12.5** |

## 28. Amounts Reported for Resource Allocation Decisions

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

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

***Income & Expenditure 2011/12***

| | 2011/12 | | | | | |
|---|---|---|---|---|---|---|
| | **CYPS £m** | **A & C £m** | **E & T £m** | **Corporate Resources £m** | **Chief Executives' £m** | **Total £m** |
| Fees, Charges and Other Service Income | (65.3) | (64.3) | (28.9) | (14.1) | (6.8) | **(179.4)** |
| Grants | (449.3) | (11.2) | (1.1) | (0.0) | (1.2) | **(462.8)** |
| **Total Income** | **(514.6)** | **(75.5)** | **(30.0)** | **(14.1)** | **(8.0)** | **(642.2)** |
| Employee Expenses | 385.8 | 51.0 | 20.9 | 34.3 | 13.7 | **505.7** |
| Other Operating Expenses | 174.5 | 146.7 | 88.8 | 18.0 | 13.3 | **441.3** |
| Support Service Recharges | 28.0 | 18.4 | (11.1) | (34.5) | (0.8) | **0.0** |
| **Total Expenses** | **588.3** | **216.1** | **98.6** | **17.8** | **26.2** | **947.0** |
| | | | | | | |
| **Net Cost of Services** | **73.7** | **140.6** | **68.6** | **3.7** | **18.2** | **304.8** |

***Income & Expenditure 2010/11 Comparative Figures***

| | 2010/11 | | | | | |
|---|---|---|---|---|---|---|
| | **CYPS £m** | **A & C £m** | **E & T £m** | **Corporate Resources £m** | **Chief Executives' £m** | **Total £m** |
| Fees, Charges and Other Service Income | (75.1) | (64.8) | (27.2) | (12.3) | (7.4) | **(186.8)** |
| Grants | (471.0) | (4.0) | (0.3) | (0.0) | (1.9) | **(477.2)** |
| **Total Income** | **(546.1)** | **(68.8)** | **(27.5)** | **(12.3)** | **(9.3)** | **(664.0)** |
| Employee Expenses | 410.7 | 56.7 | 21.4 | 34.1 | 13.6 | **536.5** |
| Other Operating Expenses | 187.5 | 142.2 | 82.5 | 12.9 | 12.6 | **437.7** |
| Support Service Recharges | 29.4 | 15.8 | (11.4) | (33.7) | (0.1) | **0.0** |
| **Total Expenses** | **627.6** | **214.7** | **92.5** | **13.3** | **26.1** | **974.2** |
| | | | | | | |
| **Net Cost of Services** | **81.5** | **145.9** | **65.0** | **1.0** | **16.8** | **310.2** |

| Key | |
|---|---|
| CYPS | Children and Young People's Department |
| A&C | Adults and Communities Department |
| E&T | Environment and Transport Department |

The Income and Expenditure tables above show the Authority's Income and Expenditure by Service area as reported to Cabinet.

***Reconciliation of Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement (CIES)***

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

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 310.2 | Net Cost of Services in the Service Analysis | 304.8 |
| 0.0 | Net Expenditure of Services Not Included in the Main Analysis | 0.0 |
| (62.3) | Amounts in the Comprehensive Income and Expenditure Statement Not Reported in Service Management Accounts | 62.0 |
| 0.5 | Amounts Reported to Management Not Included in the Comprehensive Income and Expenditure Statement | (6.5) |
| **248.4** | **Net Cost of Services in Comprehensive Income and Expenditure Statement** | **360.3** |

- ***Reconciliation to Subjective Analysis 2011/12***

| | Service Analysis £m | Not Reported in Management Accounts £m | Not Included in CIES £m | Net Cost of Services (Sub-Total) £m | Corporate Accounts £m | Total £m |
|---|---|---|---|---|---|---|
| Fees, Charges & Other Service Income | (179.4) | (10.5) | 19.2 | (170.7) | 0.0 | **(170.7)** |
| Profit or Loss on Disposal of Fixed Assets | 0.0 | 0.0 | 0.0 | 0.0 | 76.3 | **76.3** |
| Interest and Investment Income | 0.0 | 0.0 | 0.0 | 0.0 | (4.6) | **(4.6)** |
| Income from Council Tax | 0.0 | 0.0 | 0.0 | 0.0 | (239.3) | **(239.3)** |
| Government Grants | (462.8) | 0.0 | 0.0 | (462.8) | (161.1) | **(623.9)** |
| **Total Income** | **(642.2)** | **(10.5)** | **19.2** | **(633.5)** | **(328.7)** | **(962.2)** |
| Employee Expenses | 505.7 | 1.0 | 0.0 | 506.7 | 0.0 | **506.7** |
| Other Service Expenses | 441.3 | 2.2 | (21.6) | 421.9 | 0.0 | **421.9** |
| Depreciation, Amortisation, Impairment and Capital Financing Charges | 0.0 | 67.4 | (4.1) | 63.3 | 0.0 | **63.3** |
| IAS 19 and Other Pension Cost Adjustments | 0.0 | 3.1 | 0.0 | 3.1 | 5.4 | **8.5** |
| Prior Year Adjustments | 0.0 | (1.4) | 0.0 | (1.4) | 0.0 | **(1.4)** |
| Interest Payments | 0.0 | 0.0 | 0.0 | 0.0 | 17.4 | **17.4** |
| Precepts & Levies | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | **0.3** |
| Surplus or Deficit on Trading Accounts | 0.0 | 0.2 | 0.0 | 0.2 | (1.7) | **(1.5)** |
| **Total Operating Expenses** | **947.0** | **72.5** | **(25.7)** | **993.8** | **21.4** | **1,015.2** |
| **(Surplus)/Deficit on the Provision of Services** | **304.8** | **62.0** | **(6.5)** | **360.3** | **(307.3)** | **53.0** |

- ***Reconciliation to Subjective Analysis 2010/11 Comparison***

| | Service Analysis £m | Not Reported in Management Accounts £m | Not Included in CIES £m | Net Cost of Services (Sub-Total) £m | Corporate Accounts £m | Total £m |
|---|---|---|---|---|---|---|
| Fees, Charges & Other Service Income | (186.8) | (126.2) | 20.5 | (292.5) | 0.0 | **(292.5)** |
| Profit or Loss on Disposal of Fixed Assets | 0.0 | 0.0 | 0.0 | 0.0 | (0.1) | **(0.1)** |
| Interest and Investment Income | 0.0 | 0.0 | 0.0 | 0.0 | (5.3) | **(5.3)** |
| Income from Council Tax | 0.0 | 0.0 | 0.0 | 0.0 | (237.7) | **(237.7)** |
| Government Grants | (477.2) | (0.9) | 0.0 | (478.1) | (177.0) | **(655.1)** |
| **Total Income** | **(664.0)** | **(127.1)** | **20.5** | **(770.6)** | **(420.1)** | **(1,190.7)** |
| Employee Expenses | 536.5 | 1.5 | 0.0 | 538.0 | 0.0 | **538.0** |
| Other Service Expenses | 437.7 | 0.9 | (16.7) | 421.9 | 0.0 | **421.9** |
| Depreciation, Amortisation, Impairment and Capital Financing Charges | 0.0 | 60.5 | (3.3) | 57.2 | 0.0 | **57.2** |
| IAS 19 and Other Pension Cost adjustments | 0.0 | 4.4 | 0.0 | 4.4 | 17.2 | **21.6** |
| Prior Year Adjustments | 0.0 | (2.5) | 0.0 | (2.5) | 0.0 | **(2.5)** |
| Interest Payments | 0.0 | 0.0 | 0.0 | 0.0 | 17.3 | **17.3** |
| Precepts & Levies | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | **0.2** |
| Surplus or Deficit on Trading Accounts | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| **Total Operating Expenses** | **974.2** | **64.8** | **(20.0)** | **1,019.0** | **34.7** | **1,053.7** |
| **(Surplus)/Deficit on the Provision of Services** | **310.2** | **(62.3)** | **0.5** | **248.4** | **(385.4)** | **(137.0)** |

## *29. Trading Accounts*

***Operations***

During the year the County Council operated three separate accounts, which undertake trading activities of a material nature.

***a) Leicestershire Highways***

Leicestershire Highways is a business unit of the Environment and Transport Department and its principal activities cover the maintenance and improvement of principal and county roads, the maintenance and erection of street lighting and the operation and maintenance of vehicles and plant.

***b) County Catering***

The Leicestershire County Catering Service provides a catering service to staff within County Hall.

***c) Industrial Properties***

Leicestershire County Council property services provide direct services to the local economy through the letting of industrial units to local businesses.

***Income and Expenditure***

| | **Leicester-shire Highways £m** | **County Catering £m** | **Industrial Properties £m** | **Total £m** |
|---|---|---|---|---|
| Income | (23.0) | (0.8) | (1.6) | (25.4) |
| Expenditure | 22.0 | 0.9 | 0.8 | 23.7 |
| **(Surplus)/Deficit in 2011/12** | **(1.0)** | **0.1** | **(0.8)** | **(1.7)** |
| (Surplus)/Deficit in 2010/11 | (0.1) | 0.1 | (0.3) | (0.3) |

In order to satisfy the requirements of competition, recharges for all work done by a trading operation in competition with the private sector have been priced to include a cost of capital recovery. The IFRS Code of Practice does not permit charges for cost of capital to be debited to trading accounts. If the cost of capital had been charged to Leicestershire Highways the surplus would be have been £0.9m (2010/11 £nil).

The County Catering Service does not own any non-current assets, therefore their accounts remain as above, whilst Industrial Properties are charged with debt charges (based on financing costs of past capital expenditure).

### *30. Pooled Budgets*

Leicestershire County Council's Adults and Communities department participates in two pooled budget arrangements with local health authorities, the details of which are outlined below. The services are either provided by the Trust or the County Council depending on the mix required by clients.

a) *The supply of aids for daily living*. The other members that contribute to this pool are Leicester City Council, Rutland County Council and the two Primary Care Trusts (PCTs). Leicester City P.C.T acts as the host authority. The County Council contributed £1.0m (2010/11 £1.3m) to the pool. The draft memorandum account shows total expenditure of £4.6m (2010/11 £4.3m) and gross income of £4.6m (2010/11 £4.3m). Funding commenced in 2005/06 and the partners have a current agreement to run this service until 2014, with the option to extend for a further two years to 2016.

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| **Funding Provided to the Pooled Budget** | | |
| Leicestershire County Council | 1.3 | 1.0 |
| Primary Care Trusts / Leicester City Council / Rutland County Council | 3.0 | 3.6 |
| **Total** | **4.3** | **4.6** |
| **Expenditure Met from the Pooled Budget** | | |
| Leicestershire County Council | 1.3 | 1.0 |
| Primary Care Trusts / Leicester City Council / Rutland County Council | 3.0 | 3.6 |
| **Total** | **4.3** | **4.6** |
| **Net Surplus Arising on the Pooled Budget** | **0.0** | **0.0** |

b) *The provision of services for adults with learning difficulties*. The other members that contribute to this pool are the Leicestershire County & Rutland NHS. The County Council acts as host to the arrangement. The County Council contributed £7m (2010/11 £33.1m) to the pool. The memorandum account shows total expenditure of £14.4m (2010/11 £48.2m) and gross income from the partners of £14m (2010/11 £48.2m). Any net over/underspend arising on the pooled budget is paid by/returned to the partners through revised contributions to the pool. Funding for this service commenced in 2005/06. The authorities have an agreement in place to renew funding these services on an annual basis.

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| **Funding Provided to the Pooled Budget** | | |
| Leicestershire County Council | 33.1 | 7.0 |
| Primary Care Trust | 15.1 | 7.0 |
| Rutland County Council | 0.0 | |
| **Total** | **48.2** | **14.0** |
| **Expenditure Met from the Pooled Budget** | | |
| Leicestershire County Council | 33.1 | 7.2 |
| Primary Care Trust | 15.1 | 7.2 |
| Rutland County Council | 0.0 | |
| **Total** | **48.2** | **14.4** |
| **Net Deficit Arising on the Pooled Budget** | **0.0** | **0.4** |

## *31. Members' Allowances*

Amounts were paid to members of the County Council as follows:

| | 2010/11 £000 | 2011/12 £000 |
|---|---|---|
| **Total** | **1,044** | **1,066** |

## *32. Related Party Transactions*

Details of the total Government grants received are shown in Notes 12 and 37. The employers' contribution paid to the Pension Fund is shown in Note 13. Interests in consortia and other organisations are disclosed in Note 33. Details of the related party transactions with the Eastern Shires Purchasing Organisation (ESPO) are included within note 33.

The County Council is required to disclose material transactions with related parties, bodies or individuals that have the potential to exert control, or be controlled or influenced by Leicestershire County Council.

***Central Government***

Central Government has effective control of the general operations of Leicestershire County Council. It is responsible for providing the statutory framework within which the County Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the County Council has with other parties (e.g. Council Tax).

Grants received from government departments are set out in the analysis in Notes 12 and 28 on reporting for resource allocation decisions. Grant receipts outstanding at 31 March are shown in Note 37.

### *Members*

Members of Leicestershire County Council have direct control over the council's financial and operating polices. The total of members' allowances paid in 2011/12 is shown in Note 31. During 2011/12, works and services to the value of £160,000 were commissioned from a company, in which one member had an interest. Contracts were entered into in full compliance with the County Council's standing orders.

Currently, the County Council has contracts with voluntary and community sector organisations to the value of £0.7m (2010/11, £1.0m), in which 11 members (2010/11, 13 members) have an interest. In addition, payments totalling £0.2m have been made during 2011/12 (2010/11, £0.2m) to organisations, in which four members have positions on the governing body (2010/11, three members). No such payments have been made to organisations whose senior management includes members of the families of members. In all instances, the payments were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the payments. Details of all these transactions are recorded in the *Register of Members' Interest*, which is available for public inspection at www.leics.gov.uk

### *Other Public Bodies (Subject to Common Control by Central Government)*

The County Council has two pooled budget arrangements with local health authorities for the supply of aids for daily living and the provision of services for adults with learning difficulties. Transactions and balances are detailed in Note 30.

### *Entities Controlled or Significantly Influenced by Leicestershire County Council*

a) The County Council and Leicester City Council each own 50% of the company: Leicester Shire Connexions Service Ltd. The company provides free advice and support for 13-19 year olds (young people with learning difficulties and/or disabilities can use the service up to the age of 25) with education, training, career guidance, health awareness, money management, drug pressures, relationships, benefits, housing and the law.

   During 2011/12 the draft accounts report a surplus in the income and expenditure account of approximately £0.3m (2010/11 surplus of £0.1m). The company's net assets as at the 31 March 2012 are approximately £0.3m (2010/11 net assets worth £0.6m). The County Council made contributions of £4.6m (2010/11 £4.2m)to Leicester Shire Connexions Service Ltd and received £0.1m during the 2011/12 (2010/11 £0.1m). The outstanding debtor and creditor balances at 31 March 2012 were less than £0.1m (2010/11 nil). A copy of Connexions statement of accounts is available from: Connexions, 6 Millstone Lane, Leicester, LE1 5JN.

   Significant changes have taken place to national policy which has a direct impact on the role of Connexions and the County Council's relationship with it. A procurement process is underway with regards to the future provision of services which may impact upon the structure of the current companies and Leicestershire County Council's involvement with them. Work is being completed to identify any financial implications arising from changes to organisational structures and if necessary ensure a robust exit strategy is implemented.

b) The County Council is a member of the East Midlands Broadband Consortia (EMBC). The EMBC is a limited company owned by eight member local authorities based in the East Midlands. The company provides the National Education Network for schools through a safe and secure educational broadband connection. During 2011/12 the draft accounts report a breakeven position on the income and expenditure account (2010/11 breakeven position). The company reports net assets as at 31 March 2012 of approximately £0.1m (2010/11 net liability £0.25m). The County Council made contributions of £0.5m to EMBC during 2011/12 (2010/11 £nil). Income, debtor and creditor balances were all less than £0.1m during 2011/12 (2010/11 £nil).

The existing EMBC contract is due to expire in October 2012 and the East Midlands Public Service Network (emPSN) will ensure availability of a range of services from this date. emPSN will be operated through two sister companies - emPSN Services Ltd and emPSN Infrastructure Ltd. EMBC Procurement Ltd has become emPSN Services Ltd and will be responsible for overseeing the delivery of services to schools under the existing EMBC contract until October 2012 - the company will also coordinate the development of successor services to schools under the emPSN umbrella. emPSN Infrastructure Ltd will manage the core emPSN network across the entire region and coordinate the delivery of corporate network services to those authorities taking managed services contracts. Initially the County Council will not be taking up a managed service contract but will instead become a 'Public Good' member, allowing the Authority to influence the direction of emPSN. The Director of Corporate Resources represents the County Council as a member of emPSN Infrastructure Ltd

A copy of EMBC's statement of accounts is available from: EMBC, 4 Prospect Court, Courteenhall Road, Blisworth, Northamptonshire, NN7 3DG.

c) In light of the substantial funding reductions, during 2011/12, The Leicester and Leicestershire Leadership Board and the two principal funding authorities (the County Council and Leicester City Council) agreed to put in place a single delivery vehicle to carry out the functions provided by the existing tourism body, Leicester Shire Promotions Limited (LPL), and the sub-region's economic development company, Prospect Leicestershire. Before this process could be concluded, Leicester City Council decided to withdraw its funding from Prospect Leicestershire, which led to that company being dissolved. The remaining costs were shared equally between Leicester City Council and Leicestershire County Council. There were no assets remaining. The County Council and Leicester City Council fund LPL to provide tourism services across the sub-region. This sequence of events, together with the Government's publication of a new Tourism Policy has provided the basis for carrying out a review of Tourism Support in the County. The County Council made contributions of £0.3m to LPL during 2011/12 (2010/11 £nil) and received income of £0.1m (2010/11 £nil). Debtor and creditor balances were less than £0.1m during 2011/12 (2010/11 £nil).

***Concessionary Travel Fares Scheme***

The County Council administers the Concessionary Travel Fares Scheme for areas covered by Leicester City Council and the District Councils in Leicestershire, for which income and expenditure is shown below:

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Income | (14.0) | (8.4) |
| Expenditure | 14.0 | 13.7 |
| **Net Cost** | **0.0** | **5.3** |

From 1 April 2011 responsibility for Concessionary Travel transferred from District Councils to the County Council and the County Council's Formula Grant was increased to reflect this change.

## 33. Interests in Consortia and other Organisations

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

The County Council is a member of the Eastern Shires Purchasing Organisation involved in the negotiation of contracts for supplies to its members and the provision of a central warehouse for the supply of items in common use. During 2011/12 a net surplus of £1.7m (2010/11 £2.0m surplus) was reported on net service income of £17.7m (2010/11 £18.0m). Turnover between the County Council and ESPO totalled £100.1m (2010/11 £78.9m) in respect of stores issues, direct orders, period contracts and strategic contracts. The County Council had an outstanding creditor balance of £0.1m (2010/11 £0.6m) and an outstanding debtor balance of £0.2m as at 31 March 2012 (2010/11 £0.3m).

In 2005, the County Council entered into a 25 year borrowing arrangement of £12.5m on behalf of the constituent members of the consortium to finance the provision of a new warehouse and integrated offices. The loan outstanding as at 31 March 2012 is £9.3m (2010/11 £9.8m).

The County Council in effect owns approximately one seventh of ESPO assets and liabilities net £1.2m (2010/11 £1.0m). These are not included on the County Council's Balance Sheet.

A copy of ESPO's statement of accounts is available from ESPO, Barnsdale Way, Grove Park, Enderby, Leicester. LE19 1ES. Telephone 0116 265 7878.

### b) East Midlands Councils

East Midlands Councils (EMC) is one of eight regional assemblies in England outside London. It comprises of 98 Members who are representatives of the region's local authorities, fire, police and parish and town councils.

EMC's main roles and purposes are:

- A consultative forum for local government in the East Midlands.

- Represents the interest of local councils to national government and other organisations
- Enables local councils to work together on key issues of common concern
- Supports the improvement and development of local councils and their workforce
- Brings together political group leaders
- Makes appointments to national and regional bodies
- Provides a reporting and governance mechanism for regional local government Partnerships e.g. Regional Improvement and Efficiency Partnership (RIEP)
- Establishes and maintains an effective relationship with the national Local Government Association (LGA)
- From April 2011 to administer a programme of regional improvement and efficiency work on behalf of the East Midlands Improvement and Efficiency Partnership (EMIEP), total £3.4m. The programme of works include improvement, efficiency, productivity, climate change and procurement. At the end of 2011/12 a balance of £1.6m was remaining which is included as receipts in advance on the County Council's Balance Sheet.

The accounts for EMC are included within the Comprehensive Income and Expenditure Statement under the heading of Planning Services.

***Income and Expenditure***

| | **2010/11 £m** | **2011/12 £m** |
|---|---|---|
| Income | (2.8) | (2.1) |
| Transfer (from) / to Reserve | 0.0 | (0.2) |
| Expenditure | 2.8 | 2.3 |
| **(Surplus)/Deficit** | **0.0** | 0.0 |

Current Service pension costs under IAS 19 are less than £0.1m and are excluded from the expenditure above for both financial years.

**c) Leicester, Leicestershire and Rutland Combined Fire Authority**

The County Council is a constituent member of Leicester, Leicestershire and Rutland Combined Fire Authority. During 2011/12 the estimated turnover is £34.3m (2010/11 actual turnover: £33.9m). The County Council received £0.3m of income during 2011/12 from Leicester, Leicestershire and Rutland Combined Fire Authority. The County Council had an outstanding debtor balance of £0.1m as at 31 March 2012.

A copy of the Fire Service statement of accounts is available from Leicester, Leicestershire and Rutland Combined Fire Authority at Anstey Frith, Leicester Road, Glenfield, Leicester, LE3 8HD. Telephone 0116 2872241.

## *34. Officers' Remuneration*

The Accounts and Audit 2011 regulations require the Council to disclose remuneration for all employees earning over £50,000, plus additional disclosure for senior officers who are statutory officers or have the power to direct or control the major activities of the County Council.

### a) Senior Officers Remuneration

The remuneration paid to the County Council's senior officers is as follows:

| Post Holder Information (Post Title) | Salary £000 | Compensation for Loss of Office £000 | Benefits in Kind £000 | Remuneration Excluding Employers Pension Contribution £000 | Employers Pension Contributions (N1) £000 | Remuneration Including Employers Pension Contribution £000 |
|---|---|---|---|---|---|---|
| **2011/12** | | | | | | |
| Chief Executive - John Sinnott | 187 | 0 | 4 | 191 | 33 | 224 |
| Director of Corporate Resources | 144 | 0 | 3 | 147 | 26 | 173 |
| Director of Children & Young People's Service | 128 | 0 | 3 | 131 | 23 | 154 |
| Director of Environment & Transport (N2) | 128 | 0 | 1 | 129 | 23 | 152 |
| Director of Adults & Communities | 128 | 0 | 4 | 132 | 23 | 155 |
| County Solicitor (N3) | 57 | 0 | 2 | 59 | 80 | 139 |
| Head of Legal Services (N4) | 93 | 0 | 0 | 93 | 16 | 109 |
| Executive Director (East Midlands Councils) (N5) | 96 | 0 | 1 | 97 | 17 | 114 |
| Total | 961 | 0 | 18 | 979 | 241 | 1,220 |
| **2010/2011** | | | | | | |
| Chief Executive - John Sinnott | 187 | 0 | 5 | 192 | 38 | 230 |
| Director of Corporate Resources | 144 | 0 | 3 | 147 | 29 | 176 |
| Director of Children & Young People's Service | 128 | 0 | 3 | 131 | 26 | 157 |
| Director of Environment & Transport | 128 | 0 | 2 | 130 | 26 | 156 |
| Director of Adults & Communities | 128 | 0 | 4 | 132 | 26 | 158 |
| County Solicitor | 113 | 0 | 4 | 117 | 23 | 140 |
| Executive Director (East Midlands Councils) (N5) | 89 | 0 | 2 | 91 | 18 | 109 |
| Total | 917 | 0 | 23 | 940 | 186 | 1,126 |

There were no payments made for bonuses, expense allowances or other payments.
N1 – Revised employer's pension contribution rates in 2011/12 following the Pension Fund Actuarial valuation at 2010.
N2 – During 2011/12, the Director was seconded for 3 days a week to the Department for Transport. Reimbursement of £75k was received.
N3 – County Solicitor left LCC during October 2011. The annualised salary for this post was £112k
N4 – Head of Legal Services took on responsibilities of County Solicitor from October 2011.
N5 – During 2010/11 and 2011/12, the Director was seconded to the LGA on a full time basis. During these periods, a reimbursement of £99k was received.

**b) Other Employees**

The Authority's other employees whose remuneration, taxable expenses and severance (if applicable), was £50,000 or more are detailed below. This information does not include employer's pension contributions.

| | 2010/11 | | | | | | 2011/12 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Including Severance | | | Excluding Severance | | | Including Severance | | | Excluding Severance | | |
| **Remuneration Band** | Schools | Non School | Number of Employees | Schools | Non Schools | Number of Employees | Schools | Non Schools | Number of Employees | Schools | Non Schools | Number of Employees |
| £50,000 - £54,999 | 174 | 65 | 239 | 174 | 60 | 234 | 133 | 58 | 191 | 129 | 53 | 182 |
| £55,000 - £59,999 | 102 | 14 | 116 | 102 | 13 | 115 | 96 | 16 | 112 | 93 | 13 | 106 |
| £60,000 - £64,999 | 55 | 33 | 88 | 55 | 30 | 85 | 50 | 25 | 75 | 49 | 24 | 73 |
| £65,000 - £69,999 | 18 | 1 | 19 | 17 | 1 | 18 | 30 | 6 | 36 | 28 | 5 | 33 |
| £70,000 - £74,999 | 22 | 6 | 28 | 22 | 4 | 26 | 17 | 5 | 22 | 17 | 3 | 20 |
| £75,000 - £79,999 | 15 | 2 | 17 | 15 | 2 | 17 | 10 | 3 | 13 | 9 | 3 | 12 |
| £80,000 - £84,999 | 7 | 6 | 13 | 7 | 6 | 13 | 8 | 3 | 11 | 7 | 3 | 10 |
| £85,000 - £89,999 | 4 | 10 | 14 | 4 | 9 | 13 | 8 | 6 | 14 | 8 | 6 | 14 |
| £90,000 - £94,999 | 4 | 2 | 6 | 4 | 2 | 6 | 1 | 3 | 4 | 1 | 3 | 4 |
| £95,000 - £99,999 | 4 | 1 | 5 | 4 | 1 | 5 | 1 | 1 | 2 | 1 | 1 | 2 |
| £100,000 - £104,999 | 2 | 0 | 2 | 2 | 0 | 2 | 3 | 0 | 3 | 3 | 0 | 3 |
| £105,000 - £109,999 | 2 | 0 | 2 | 2 | 0 | 2 | 2 | 0 | 2 | 1 | 0 | 1 |
| £110,000 - £114,999 | 1 | 2 | 3 | 1 | 1 | 2 | 1 | 1 | 2 | 1 | 1 | 2 |
| £115,000 - £119,999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £120,000 - £124,999 | 1 | 0 | 1 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| £125,000 - £129,999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £130,000 - £134,999 | 1 | 0 | 1 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| £135,000 - £139,999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £140,000 - £144,999 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £145,000 - £149,999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £150,000 - £154,999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £155,000 - £159,999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £160,000 - £164,999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £165,000 - £169,999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £170,000 - £174,999 | 0 | 1 | 1 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 0 |
| **Total** | 412 | 144 | **556** | 411 | 129 | **540** | 361 | 127 | **488** | 347 | 115 | **462** |

### c) Exit Packages

The numbers of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below:

| Exit Package Cost Band | Number of Compulsory Redundancies | | Number of Other Departures Agreed | | Total Number of Exit Packages by Cost Band | | Total Cost of Exit Packages in each Cost Band* | |
|---|---|---|---|---|---|---|---|---|
| | 2010/11 | 2011/12 | 2010/11 | 2011/12 | 2010/11 | 2011/12 | 2010/11 £m | 2011/12 £m |
| £0 - £20,000 | 168 | 371 | 266 | 225 | 434 | 596 | 3.2 | 4.2 |
| £20,001 - £40,000 | 16 | 52 | 79 | 92 | 95 | 144 | 2.6 | 4.0 |
| £40,001 - £60,000 | 3 | 6 | 13 | 9 | 16 | 15 | 0.8 | 0.7 |
| £60,001 - £80,000 | 5 | 0 | 3 | 1 | 8 | 1 | 0.5 | 0.1 |
| £80,001 - £200,000 | 2 | 1 | 2 | 2 | 4 | 3 | 0.4 | 0.3 |
| **Total** | **194** | **430** | **363** | **329** | **557** | **759** | **7.5** | **9.3** |

*The above table includes accrued liabilities. See note 41 for further details
**Note, the numbers shown are the actual number of officers, not full time equivalents.

## 35. Audit Costs

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| ***Fees payable to external auditor:*** | | |
| - annual audit | 0.2 | 0.2 |
| - certification of grant claims * | 0.0 | 0.0 |
| - other ** | 0.0 | 0.0 |
| **Total** | **0.2** | **0.2** |

* Grant claims continue to be accounted for on the basis of actual payments in year (£12,750 2010/11), rather than an estimation of costs relating to 2011/12 grant claims.

** Other includes VAT helpline of £2,000 (2010/11 £4,000).

## 36. Dedicated Schools Grant

Leicestershire County Council's expenditure on schools is funded by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. 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 2011/12 are as follows:

| | Schools Budget Funded by DSG | | | | | |
|---|---|---|---|---|---|---|
| | 2010/11 | | | 2011/12 | | |
| | Central Exp £m | Individual Schools Budget £m | Total £m | Central Exp £m | Individual Schools Budget £m | Total £m |
| Final DSG for year | (41.3) | (308.1) | (349.4) | (48.9) | (334.9) | (383.8) |
| Brought forward from previous year * | (1.3) | (2.4) | (3.7) | (1.8) | (1.1) | (2.9) |
| Carry forward agreed in advance | 0.9 | 0.0 | 0.9 | 0.2 | 0.0 | 0.2 |
| Agreed budgeted distribution | (41.7) | (310.5) | (352.2) | (50.5) | (336.0) | (386.5) |
| Actual central expenditure | 39.7 | 0.0 | 39.7 | 49.0 | 0.0 | 49.0 |
| Actual ISB deployed to schools | 0.0 | 310.5 | 310.5 | 0.0 | 336.0 | 336.0 |
| Local Authority Contribution | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Carry Forward** | **(2.0)** | **0.0** | **(2.0)** | **(1.5)** | **0.0** | **(1.5)** |

*Within the 2011/12 accounts the carry forward figure totalling £2.9m has in total been transferred between central expenditure and the Individual Schools Budget. This money was allocated in the original Schools budget.

## 37. Grant Income

a) The County Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement:

(i) Credited to Taxation and Non Specific Grant Income.

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| ***Revenue:*** | | |
| Revenue Support Grant | 12.8 | 25.7 |
| Area Based Grant | 27.3 | 0.0 |
| Local Service Support Grant | 0.0 | 1.4 |
| Council Tax Freeze Grant | 0.0 | 6.0 |
| New Homes Bonus Scheme Grant | 0.0 | 0.6 |
| ***Capital:*** | | |
| *Department for Education:* | | |
| Devolved Formula Capital | 11.1 | 5.8 |
| One School Pathfinder | 8.1 | 0.0 |
| Modernisation | 5.9 | 0.0 |
| Primary Capital Programme | 5.7 | 0.0 |
| Young People's Learning Agency | 5.7 | 0.0 |
| General Sure Start | 1.9 | 0.0 |
| Targeted Capital Fund | 1.7 | 0.0 |
| Basic Need | 0.0 | 8.8 |
| Maintenance | 0.0 | 12.5 |
| Short Breaks for Disabled Children | 0.0 | 0.3 |
| *Department for Transport:* | | |
| Local Transport Plan | 0.6 | 0.0 |
| Winter Damage Grant | 0.8 | 0.0 |
| Maintenance Block | 0.0 | 10.8 |
| ITS Block | 0.0 | 3.9 |
| *Department for Communities & Local Government:* | | |
| Homes & Community Agency | 2.5 | 0.0 |
| Community Capacity Grant | 0.0 | 1.2 |
| *Other Contributions:* | 5.0 | 1.0 |
| **Total (Note 12 non ringfenced Government grants and capital grants and contributions)** | **89.1** | **78.0** |

(ii) Credited to Services

| | 2010/11 £m | | 2011/12 £m | |
|---|---|---|---|---|
| *Chief Executives* – Youth Justice Board | | 0.0 | | 0.8 |
| *Children and Young People's Service – Education:* | | | | |
| Sure Start, Early Years and Childcare Grant | 20.9 | | 0.0 | |
| School Standards | 19.3 | | 0.0 | |
| Dedicated Schools Grant | 349.4 | | 383.8 | |
| Standards Fund | 38.0 | | 0.8 | |
| Asylum Seekers | 1.3 | | 1.0 | |
| Learning & Skills Council | 47.0 | | 41.7 | |
| Early Intervention Grant | 0.0 | | 18.3 | |
| ICT Harnessing Technology Grant | 0.0 | | 1.1 | |
| Pupil Premium Grant | 0.0 | | 3.8 | |
| Dept For Education Primary Capital Programme | 1.8 | | 0.0 | |
| Dept for Education Targeted Capital Programme | 2.0 | | 0.0 | |
| Growth Point Funding (CBC) | 1.1 | | 0.0 | |
| | | 480.8 | | 450.5 |
| *EMC* - Government Office East Midlands | | 0.9 | | 0.0 |
| *Adults and Communities – Dept of Health:* | | | | |
| LD Commissioning Transformation Grant | 0.0 | | 10.6 | |
| Social Care Reform Grant | 2.4 | | 0.0 | |
| | | 2.4 | | 10.6 |
| *Environment and Transportation – Dept of Transport* | | 0.0 | | 0.7 |
| Other | | 6.3 | | 11.5 |
| **Total** | | **490.4** | | **474.1** |

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

Short-Term Capital Grants Receipts in Advance:

| | 31 March 2011 £m | 31 March 2012 £m |
|---|---|---|
| *Dept for Education:* | | |
| Targeted Capital Grant | 0.8 | 0.0 |
| Young People's Learning Agency | 0.6 | 0.0 |
| *Dept for Transport:* | | |
| ITS Block Grant | 0.0 | 0.5 |
| *Dept for Health:* | | |
| Social Care Reform Grant | 0.3 | 0.0 |
| Section 106 Housing Developer Contributions | 1.4 | 0.3 |
| Other Grants and Contributions | 0.1 | 0.3 |
| **Total** | **3.2** | **1.1** |

Long-Term Capital Grants Receipts in Advance:

| | 31 March 2011 £m | 31 March 2012 £m |
|---|---|---|
| *East Midlands Development Agency:* | | |
| Land Reclamation Grant | 0.5 | 0.4 |
| Section 106 Housing Developer Contributions | 4.6 | 4.1 |
| **Total** | **5.1** | **4.5** |

## *38. Capital Expenditure and Capital Financing*

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to fund it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the County Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the County Council that has yet to be financed.

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| ***Capital Investment:*** | | |
| Property, Plant and Equipment and Intangible Assets | 75.9 | 59.6 |
| Revenue Expenditure funded from Capital under Statute | 16.6 | 13.9 |
| ***Sources of Finance:*** | | |
| Capital Receipts | (3.2) | (5.7) |
| Government grants and other contributions | (64.0) | (53.8) |
| Direct revenue contributions | (3.4) | (6.0) |
| **Balance Representing Borrowing Requirement** | **21.9** | **8.0** |
| Opening Capital Financing Requirement | 381.2 | 387.9 |
| Add: Borrowing Requirement | 21.9 | 8.0 |
| Less: Minimum Revenue Provision | (15.2) | (15.5) |
| Other Movements | 0.0 | 0.0 |
| **Closing Capital Financing Requirement** | **387.9** | **380.4** |
| Increase in underlying need to borrow: | | |
| Supported by government financial assistance | 21.9 | 0.0 |
| Unsupported by government financial assistance | 0.0 | 8.0 |

## 39. Leases

### a) Amounts Paid to Lessors

Finance lease rentals paid to lessors in the year totalled £0.4m (2010/11 £0.4m). Lease rentals paid to lessors during the year in respect of operating leases for vehicles and equipment totalled £1.6m (2010/11 £1.7m).

### b) Amounts Received from Lessees

Lease rentals on council owned buildings received from lessees during the year in respect of operating leases totalled £1.3m (2010/11 £1.7m). During 2011/12 fourteen schools transferred to Academy Status resulting in the net book value of the schools, £76.3m being written out of the Authority's Balance Sheet as these have been transferred on 125 year finance lease terms. No consideration was or will be received by the Authority for these finance leases.

### c) Leased Assets

The County Council has a liability to make payments for the following leases during 2012/13 and beyond and the comparators in 2010/11 for 2011/12 and beyond are as follows:

| | 2010/11 | | 2011/12 | | | |
|---|---|---|---|---|---|---|
| | Finance Leases Total Outstanding £m | Operating Leases £m | Finance Lease Principal (NPV) £m | Finance Cost £m | Finance Leases Total Outstanding £m | Operating Leases £m |
| ***Lease Payments due:*** | | | | | | |
| Within 1 year | 0.3 | 0.4 | 0.1 | 0.2 | 0.3 | 0.5 |
| 2 to 5 years | 1.2 | 1.3 | 0.3 | 0.8 | 1.1 | 1.3 |
| Over 5 years | 6.3 | 0 | 1.4 | 4.6 | 6.0 | 0 |
| **Total** | **7.8** | **1.7** | **1.8** | **5.6** | **7.4** | **1.8** |

Finance Leased Assets have a carrying value within Land & Buildings within Property, Plant and Equipment of £1.2m as at 31 March 2012.

## 40. Impairment Losses

During 2011/12, the County Council has not recognised any impairment losses (2010/11 nil). However, revaluations downwards of £9.6m have been recognised in the Revaluation Reserve and revaluations downwards of £19.3m have been recognised in the Comprehensive Income and Expenditure Statement as shown in Note 8.

## 41. *Termination Benefits*

Termination benefits arise when employment is terminated by the County Council before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Termination benefits are recognised as a liability and an expense if the County Council is demonstrably committed to a detailed formal plan without realistic possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, termination benefits are measured based on the number of employees (not full time equivalents) expected to accept the offer. The total termination benefits for 2011/12 are £9.4m (2010/11 £7.6m).

Details of actual and accrued benefits are shown below:

- **2011/12 - Actual**

| | **2010/11** | | | **2011/12** | | |
|---|---|---|---|---|---|---|
| | **Number of Officers Schools** | **Number of Officers Non-Schools** | **Amount (£m)** | **Number of Officers Schools** | **Number of Officers Non-Schools** | **Amount (£m)** |
| ***Department:*** | | | | | | |
| Children & Young People's Services (Including Schools) | 176 | 74 | 2.8 | 299 | 22 | 3.3 |
| Environment & Transport | | 19 | 0.3 | | 8 | 0.2 |
| Adults & Communities | | 53 | 0.4 | | 43 | 0.4 |
| Corporate Resources | | 31 | 0.5 | | 37 | 0.6 |
| Chief Executive's (Incl East Midlands Council) | | 27 | 0.3 | | 35 | 0.5 |
| **Total** | **176** | **204** | **4.3** | **299** | **145** | **5.0** |

- **2011/12 - Accrued Liabilities***

| | **2010/11** | | | **2011/12** | | |
|---|---|---|---|---|---|---|
| | **Number of Officers Schools** | **Number of Officers Non-Schools** | **Amount (£m)** | **Number of Officers Schools** | **Number of Officers Non-Schools** | **Amount (£m)** |
| ***Department:*** | | | | | | |
| Children & Young People's Services (Including Schools) | 0 | 61 | 1.1 | 77 | 146 | 2.7 |
| Environment & Transport | | 8 | 0.2 | | 5 | 0.1 |
| Adults & Communities | | 75 | 1.5 | | 62 | 1.0 |
| Corporate Resources | | 27 | 0.4 | | 13 | 0.3 |
| Chief Executive's (Incl East Midlands Council) | | 6 | 0.1 | | 12 | 0.3 |
| **Total** | **0** | **177** | **3.3** | **77** | **238** | **4.4** |

* Accrued liabilities includes provisions of £1.6m (2010/11 £1.0m)

## 42. *Contingent Liabilities*

a) Municipal Mutual Insurance Limited (MMI), the County Council's former insurer between November 1969 and October 1991, ceased writing insurance business owing to financial difficulties in September 1992. MMI made a scheme of arrangement with its creditors in the event of the company becoming insolvent. The MMI, along with a number of other insurers, has been involved in what has become known as the 'trigger point' litigation in relation to the interpretation of liability policy wordings concerning mesothelioma claims. The result of the litigation is seen as fundamental to the company's ability to achieve a successful run-off of claims. The Supreme Court handed down judgment in relation to the 'trigger point' litigation in March 2012 confirming that Insurers are liable for claims based upon the date of exposure to asbestos fibres. This outcome brings considerably more asbestos related claims within the period that the MMI was providing insurance cover. The judgment serves to confirm the latest financial information available for MMI showing projected net liabilities of £85m. If the scheme of arrangement is triggered by the company's directors an initial payment (levy) is likely to be requested by the scheme administrator. As the levy is now probable a Provision of £1.9m has been included in the County Council's accounts.

   However it should be noted that there is a contingent liability for any additional deficit due to the uncertainty of the value of incurred but not reported (IBNR) claims. A reserve has been established to reduce the risk to the County Council of any further liabilities under the MMI scheme of arrangement and in respect of other failed insurers such as The Independent Insurance Co. Limited. and any uninsured losses.

b) Independent Insurance Company Limited, the County Council's liability insurers for the period 1 November 1993 to 31 October 1998, went into provisional liquidation in June 2001. Claims to date for this period have been financed from the Council's insurance reserve, however, further claims may arise in the future.

c) Projects that have been awarded lottery funds; if the assets provided are withdrawn from public use before the end of the agreed term, repayment of grant may be necessary.

## 43. *Nature and Extent of Risks Arising from Financial Instruments*

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

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

The County 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 Corporate Resources department, under polices approved by the Council in the Annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

**(i) Credit risk**

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

This risk is minimised through the Annual Investment Strategy. The Council considers credit ratings assigned by both Fitch and Moody's and will only lend to institutions which have extremely high ratings with both of the agencies and are also domiciled in a country which has the highest possible sovereign government rating. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

Banking groups that are at least one third owned by the UK Government and maintain a support rating of '1' on the Fitch ratings can be included on the list of acceptable counterparties for an amount of £40m for up to 1 year, as long as their short-term ratings do not fall below F1 (Fitch) and P-2 (Moody's), and their long-term ratings are maintained at least at A (Fitch) and A-2 (Moody's).

Maximum limits for funds on loan and maturity dates exists for each acceptable counterparty and vary according to the credit rating, with a maximum limit of £50m for UK and £10m for overseas institutions. At the year end all of the County Council's investments were held in UK domiciled institutions.

Customers are not assessed for credit risk other than for tenancy agreements and major contracts.

The credit criteria in respect of financial assets held by the County Council are as detailed below:

***Matrix for UK Banks and Building Societies***

| | | | |
|---|---:|---:|---:|
| Maximum Sum Outstanding | £50m | £40m | £25m |
| Maximum Loan Period | 3 years | 3 years | 2 years |
| Minimum Fitch Support Rating | 1 | 1 | 1 |
| Must at least match **all** of the following: | | | |
| Fitch Short Term Rating | F1+ | F1+ | F1+ |
| Moody's Short Term Rating | P-1 | P-1 | P-1 |
| Fitch Long Term Rating | AA | AA- | AA- |
| Moody's Long Term Rating | Aa2 | Aa3 | Aa3 |
| Fitch Viability Rating | a+ | a+ | a |
| Moody's Financial Strength Rating | C+ | C+ | C |

***Matrix for Overseas Banks***

| | | |
|---|---|---|
| Maximum Sum Outstanding | £10m | £5m |
| Maximum Loan Period | 1 year | 1 year |
| Minimum Fitch Sovereign Rating | AAA | AAA |
| Minimum Fitch Support Rating | 1 | 1 |
| Must at least match **all** of the following: | | |
| Fitch Short Term Rating | F1+ | F1+ |
| Moody's Short Term Rating | P-1 | P-1 |
| Fitch Long Term Rating | AA+ | AA |
| Moody's Long Term Rating | Aa1 | Aa2 |
| Fitch Viability Rating | aa- | aa- |
| Moody's Financial Strength Rating | B | B |

Maximum Country exposure: AAA sovereign rating = £15m

***Money Market Funds***
AAA-rated only
Maximum amount in any single fund = £25m
Maximum amount in all Money Market Funds = £125m

***Debt Management Office (DMO) (Executive Agency of HM Treasury)***
No restriction on loan amounts or periods. In the event that the maximum loan length is extended beyond the current 6 month period, no loan will have a maturity above 12 months.

***Exposure to Credit Risk***

The County Council's maximum exposure to credit risk in relation to its investments in banks and building societies is 100% of its investments, but this 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 irrecoverability applies to all of the County Council's deposits, but there was no evidence at 31 March 2012 that this was likely to crystallise.

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

| | Amount at 31st March 2011 £m | Historical experience of default % | Historical experience adjusted for market conditions at 31 March 12 % | Estimated maximum exposure to default and uncollecta-bility £m | Amount at 31st March 2012 £m |
|---|---|---|---|---|---|
| Deposits with banks and financial institutions | 120.0 | 0 | 0 | 0 | 131.8 |
| Sales ledger | 18.2 | 0.26 | 0 | 0.1 | 21.2 |
| **Total** | **138.2** | | | | **153.0** |

No credit limits were exceeded during the reporting period and the County Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The County Council does not generally allow credit for customers. Credit limits are not generally imposed on customers and clients of County Council services.

The sales ledger debt is £21.2m (2010/11 £18.2m) of which £1.4m (2010/11 £1.4m) is secured debt for residential care charges. The sales ledger debt due but not impaired amount can be analysed by age as follows:

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Less than three months | 15.0 | 17.1 |
| Three to six months | 0.9 | 1.0 |
| Six months to one year | 0.8 | 1.3 |
| More than one year | 1.5 | 1.8 |
| **Total** | **18.2** | **21.2** |

In respect of the above sales ledger debt, the County Council has made a provision of £1.6m for potential doubtful debts.

**(ii) Liquidity risk**

The County Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the County Council has ready access to borrowings from the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the County Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The County Council sets limits on the proportion of its fixed rate borrowing during specific periods. The strategy is to ensure that not more than 50% of loans are due to mature within any rolling five-year period through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of financial liabilities is as follows:

| | **Total Principal Outstanding At 31 March** | |
|---|---|---|
| | **2011 £m** | **2012 £m** |
| ***Lender:*** | | |
| Public Works Loan Board | 213.1 | 200.6 |
| Banks and building societies | 105.5 | 105.5 |
| **Total by Lender** | **318.6** | **306.1** |
| ***Analysis of maturity of these loans:*** | | |
| Maturing - | | |
| Between 1 and 2 years | 12.5 | 12.5 |
| Between 2 and 5 years | 31.0 | 19.0 |
| Between 5 and 10 years | 12.0 | 12.0 |
| Between 10 and 15 years | 7.3 | 7.3 |
| Between 15 and 20 years | 2.3 | 1.8 |
| Between 20 and 25 years | 0 | 0 |
| Between 25 and 30 years | 0 | 0 |
| Between 30 and 35 years | 17.4 | 23.2 |
| Between 35 and 40 years | 47.6 | 57.7 |
| Between 40 and 45 years | 105.6 | 99.6 |
| Over 45 years | 82.9 | 73.0 |
| **Total by Maturity** | **318.6** | **306.1** |

In addition to the principal outstanding, as above, there are Lender Option Borrower Option (LOBO) adjustments of £3.1m (2010/11 £3.1m), making the total of Long Term Borrowing £309.2m (2010/11 £321.7m) as disclosed in the Balance Sheet.

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

**(iii) Market risk**

***Interest rate risk***
The County Council is exposed to significant 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 County Council. For instance, a rise in interest rates would have the following effects:

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

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus and Deficit on the Provision of Services and affect the General County Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Comprehensive Income and Expenditure Statement.

The County Council has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of 50% of its borrowings in variable rate loans. A proportion of Government Grant payable on financing costs will normally move with prevailing interest rates and the County Council takes account of this when considering the best strategy for borrowing. Borrowing decisions will generally be made with a view to measuring the long term cost to the County Council.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse charges to be accommodated. The analysis will also advise whether new borrowing is taken out as fixed or variable.

According to this assessment strategy, at 31 March 2012, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

| | **£m** |
|---|---|
| Increase in interest payable on variable rate borrowings | N/A |
| Increase in interest receivable on variable rate investments | 1.3 |
| Increase in government grant receivable for financing costs | 0.5 |
| **Impact on Surplus or Deficit on the Provision of Services** | **1.8** |
| | |
| Decrease in fair value of fixed rate investment assets | (0.6) |
| **Impact on Other Comprehensive Income and Expenditure** | **(0.6)** |
| Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the provision of Services or Other Comprehensive Income and Expenditure) | (53.3) |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

***Price risk***

The County Council does not hold any equity shares, thus there is no price risk to the County Council.

***Foreign exchange risk***

The County Council has no financial assets or liabilities denominated in foreign currencies and thus have no exposure to loss arising from movements in exchange rates.

## *44. Self Insurance*

Provisions and reserves are operated to meet the self-insured deductibles for the following policies, however, stop loss insurance applies to fire and public/employers' liability policies.

| | **Deductible per Claim** |
|---|---|
| | **£** |
| Fire | 500,000 |
| Public/Employers' liability | 150,000 |
| Fidelity guarantee | 100,000 |
| Motor | 500 |

Apart from Museums, the County Council has no general insurance cover for accidental damage to or the theft of contents from buildings. Similarly the County Council does not purchase money insurance. Schools, however, have the option to join a group self insurance scheme to cover the above risks.

## 45. Collection Fund Adjustment Account

The Collection Fund Adjustment Account represents the County Council's share of the Collection Fund Surplus/Deficit held by each Council Tax billing authority within Leicestershire. The breakdown of the figure included in the Balance Sheet is as follows:

| Collection Fund | Blaby District Council £m | Charnwood Borough Council £m | Harborough District Council £m | Hinckley & Bosworth Borough Council £m | Melton Borough Council £m | Oadby & Wigston Borough Council £m | North West Leicester-shire District Council £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| ***2011/2012*** | | | | | | | | |
| Council Tax Arrears | 1.4 | 2.8 | 1.7 | 0.8 | 1.2 | 0.5 | 1.5 | 9.9 |
| Impairment Allowance for Bad/Doubtful Debts | (0.4) | (1.1) | (0.4) | (0.2) | (0.1) | (0.1) | (0.8) | (3.1) |
| Council Tax Overpayments & Prepayments | (0.4) | (1.0) | (0.4) | (0.6) | (0.3) | (0.2) | (0.5) | (3.4) |
| **Collection Fund (surplus) / deficit** | **(0.3)** | **(0.1)** | **(0.1)** | **(0.0)** | **0.1** | **(0.2)** | **(0.1)** | **(0.7)** |
| Cash | (0.3) | (0.6) | (0.8) | (0.0) | (0.9) | 0.0 | (0.1) | (2.7) |
| ***2010/2011*** | | | | | | | | |
| Council Tax Arrears | 1.3 | 2.6 | 1.4 | 0.8 | 1.1 | 0.5 | 1.1 | 8.8 |
| Impairment Allowance for Bad/Doubtful Debts | (0.4) | (1.0) | (0.4) | (0.2) | (0.1) | (0.1) | (0.7) | (2.9) |
| Council Tax Overpayments & Prepayments | (0.4) | (0.9) | (0.4) | (0.5) | (0.3) | (0.2) | (0.5) | (3.2) |
| **Collection Fund (surplus) / deficit** | **(0.1)** | **(0.3)** | **(0.4)** | **(0.1)** | **0.0** | **(0.2)** | **(0.3)** | **(1.4)** |
| Cash | (0.4) | (0.4) | (0.2) | 0.0 | (0.7) | 0.0 | 0.4 | (1.3) |

The County Council's Collection Fund Adjustment Account therefore has a credit balance of £0.7m at 31 March 2012 (credit balance of £1.4m as at 31 March 2011.)

## 46. Heritage Assets: Further Information on the Authority's Collections

### The Art Collection

The collection consists of numerous paintings which were mostly purchased between the 1930's and 1980's. The majority of the paintings are loaned to schools, community centres, day centres and other public buildings within Leicestershire. Some of the notable paintings of most value are works of the nineteenth century local artist John Ferneley and other artists including Christopher Wood, Robert Colquhoun and William Scott.

### The Archaeological Collection

This collection consists of the Hallaton treasure, the largest hoard of British Iron Age coins, which was initially discovered near Hallaton in 2000. The hoard includes over 5,000 silver and gold coins, a silver-gilt Roman parade helmet, jewellery, and other objects. Most of the items date to around the time of the Roman Conquest of Britain in the 1st century AD. It was purchased recently in 2007 for £0.3m and restored in 2011 and revalued to £0.4m.

### The Working Life Collection

The collection consists mainly of donated steam locomotives which were operational during the mid 1950's. It also consists of the Whitwick hearse, an ice cream van and the Blue Box Century Theatre. These are all located at Snibston Discovery Park. The Century Theatre is thought to be the only solid structure, fully equipped, mobile theatre in the world. The dream of John Ridley, an engineer, was turned into reality in a Hinckley yard between 1948 and 1952. Converted from wartime military trailers and tractors, the theatre travelled in convoy of 32 vehicles to provide quality theatre around the country for 23 years. Many famous names are associated with the theatre including Laurence Olivier, Agatha Christie, Enid Blyton, Judi Dench, Helen Mirren, Tom Courtney, Derek Fowlds and Eileen Derbyshire. It is now permanently based at Snibston, primarily as an historical artefact, but it continues to provide quality touring theatre, music, comedy and educational activities for the community.

### The Fashion Collection

This collection is solely made up of the Symington collection which was created by the Market Harborough company R. & W. H. Symington, which began to make corsets for fashionable Victorian ladies in the 1850s. The company eventually grew into an international concern and one of its most famous products, the Liberty Bodice, was produced for almost seventy years.

This unique collection was donated to Leicestershire County Council's Museums Service in 1980. Although it includes some pieces made by their competitors, the collection essentially tells the story of the Symington company over a period of one hundred and thirty years. It includes garments and supporting advertising material, which provide an insight into the development of corsetry, foundation garments and swimwear from the late 19th century through to the beginning of the 1990s

### The Civic Collection

This collection comprises of the Melton Mowbray Horse Fair painting by John Ferneley and Silver and Insignia held by Leicestershire County Council.

## 47. *Trust Funds (excluded from the Balance Sheet)*

The County Council acts as trustee and/or administrator for approximately 20 prize funds, endowments, scholarships and bequests. The original bequests are invested in either the Council's trust fund pooling scheme or in a range of other direct external investments.

Trustees are nominated by Leicestershire County Council, Leicester City Council and the National Trust to the Bradgate Park and Swithland Wood charity. This is the largest Trust the County Council is involved with, and due to the timing of the production of Leicestershire County Council's Statement of Accounts, the figures shown below are compiled on an estimated basis.

To the extent that income from these investments has not been utilised for prizes etc., the surplus funds are invested in short term deposits with various financial institutions.

Under regulations issued through the Charities Act 1993, trust fund accounts where annual income exceeds £10,000, require an independent examination.

The main trust funds are as follows:

| | Balance at 31 March 2011 | Income | Expenditure | Balance at 31 March 2012 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| ***Trust Funds:*** | | | | |
| Kibworth High School Endowment | 0.2 | 0 | 0 | 0.2 |
| Bradgate Park & Swithland Wood Charity * | 1.0 | (1.0) | 1.0 | 1.0 |
| Others | 0.2 | 0 | 0 | 0.2 |
| **Total Trust Funds** | **1.4** | **(1.0)** | **1.0** | **1.4** |

* Not sole trustee. The County Council administers the funds and is represented on the board of trustees. For the current financial year the balance stated is a draft figure. The previous years balance has been restated to reflect the final audited figure.

## 48. *Statement of Accounting Policies and Estimation Techniques*

### 1. *General Principles*

The County Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting (COPLAA) in the UK 2011/12 and the Service Reporting Code of Practice (SeRCOP) 2011/12 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This is supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 act. These accounts are principally maintained on an historical cost basis, modified by the revaluation of certain categories of non-current assets and financial instruments.

### 2. *Provisions*

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

The County Council has established a number of provisions to meet liabilities which are expected to arise in future years but are of uncertain timing or amounts.

Details of these provisions are shown in note 23.

Such provisions are charged to the appropriate service within the Comprehensive Income and Expenditure Statement when created in the year the Authority becomes aware of the obligation. Payments when eventually made are charged directly to the provision held on the Balance Sheet. The level of provisions are reviewed each year and any liabilities that are excessive or no longer required are returned to the relevant service account.

### 3. *Reserves*

The County Council sets aside resources for future policy purposes. These are created by appropriating amounts from the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred this is charged to the appropriate service in that year. A withdrawal from the reserve is then made in order to avoid a net charge against council tax.

#### a) *Revenue*

The General County Fund Balance represents a working balance derived from past savings disclosed in the income and expenditure account or budgeted contributions. This balance incorporates both school balances, which as a result of legislation are retained by each individual school, and underspends on services that have been approved for carry forward to the following year.

In addition a number of earmarked revenue reserves are maintained for future expenditure which fall outside the definition of a provision. Details of these reserves are shown in note 9.

## b) Capital

In accordance with standard accounting practice for local authorities, three non cash backed capital reserves exist as part of the system of capital accounting. These are:

### i) Revaluation Reserve

The Revaluation Reserve represents the gains in asset values arising from the revaluation of fixed assets since 1 April 2007. Gains arising before this date have been consolidated into the Capital Adjustment Account. The balance thus represents unrealised gains since that date.

### ii) Capital Adjustment Account

A store of capital resources set aside from revenue, capital receipts and the provision for repayment of debt (MRP) set aside to finance past capital expenditure.

### iii) Deferred Capital Receipts Reserve

There is an additional Unusable Capital Reserve for deferred capital receipts as these are not recognised as Usable Capital receipts until they are backed by cash receipts, at which point they will be transferred to the Usable Capital Receipts Reserve.

### iv) Capital Receipts Reserve and Capital Grants Unapplied

There are also two Usable Capital Reserves. For further details of the Capital Receipts Reserve and Capital Grants Unapplied see accounting policies 11 and 13 respectively.

## c) Other

There are also three other non cash backed reserves that are held for statutory accounting purposes. These are:

### i) 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.

### ii) 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 Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority 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 Authority 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.

#### *iii) Short-Term Accumulating Compensated Absences Adjustment Account*

The Short-Term Accumulating Compensated Absences Adjustment Account absorbs the differences that would otherwise arise on the General County Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General County Fund Balance is neutralised by transfers to or from the account.

### *4. Cash and Cash Equivalents*

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty with a notice of 24 hours or less. Cash equivalents are investments that mature in three months or less from the date of acquisition and that 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 an integral part of the County Council's cash management.

### *5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors*

Prior period adjustments may arise as a result in a change of accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the County Council's financial position or performance. Where a change is made it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### *6. Non- Current Assets*

All expenditure on the acquisition and/or improvement of land, buildings, roads, bridges, plant and major purchases of equipment is capitalised on an accruals basis provided that these assets yield a benefit to the County Council for a period of more than one year and is above the Capital programme de-minimis limit of £10,000 for individual items. However, some relatively minor items may be financed from revenue. The purchase of single items below £10,000 may be capitalised in certain circumstances, for example, the need to comply with grant conditions.

Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Some categories of Non-Current Assets are revalued on the basis recommended by the COPLAA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS).

The basis of valuation of the various categories of assets is as follows:

- ***Intangible Assets*** covers the purchase of software licences which do not have a physical substance but are controlled by the Authority as a result of a past event. The valuation is based on amortised historical cost for all assets with an original cost in excess of £20,000.

- ***Property, Plant and Equipment- divided into the following sub-categories;***

- ***Land and Buildings*** are included in the Balance Sheet at open market value for existing use or, where because of the specialised nature this could not be assessed (there being no market for such an asset), at depreciated replacement cost.

  Valuation is carried out on a selective on-going basis such that all assets are revalued at least once every five years, and on completion of a capital scheme above £100,000. In addition the top twenty valued assets are now valued each year. The valuation is carried out by various Chartered Surveyors in the Property Services Division of the Corporate Resources Department. Asset lives have been reviewed and standardised over the last two years and have been updated within the Asset Register. Assets Held For Sale are revalued within the year to ensure the open market value is accurate.

  The current asset values used in the accounts are based on a certificate issued by the County Council's Head of Property Services Division as at 1 April 2011. Additions since that date are included in the accounts at their cost of acquisition. The addition is then reviewed, and if the actual capital expenditure does not increase the asset valuation or if the expenditure is less than the council's £100,000 capital de-minimus level then this value will be recognised in the Comprehensive Income and Expenditure Statement as capital expenditure not increasing value.

- ***Vehicles, Plant, Furniture and Equipment;*** valuation is based on depreciated historical cost for all assets with an original cost in excess of £20,000, with the exception of Leicestershire Highways who occasionally capitalise an asset under £20,000. Additions below these de-minimus levels are recognised in the Comprehensive Income and Expenditure Statement as capital expenditure not increasing in value.

- ***Infrastructure Assets*** are valued on the basis of depreciated historical cost.

- ***Community Assets*** are assets that the County Council is likely to keep in perpetuity for the benefit of local people, e.g. country parks and reclaimed land.

Such assets are valued at nominal values for assets acquired prior to 1994 and historical cost thereafter.

- ***Assets Under Construction*** are based on actual payments made to date.

- ***Surplus Assets*** are surplus to service requirements and are valued at open market value.

- ***Assets Held For Sale*** are assets that are actively being marketed for sale, the asset sale is highly probable and the sale is expected within 12 months. These are valued on open market value.

### *Componentisation*

IAS 16 requires significant components of assets to be recorded separately where they have substantially different useful lives to enable depreciation to be calculated separately.

The County Council already componentises assets into blocks that have a significant value against the total value of the asset or are naturally identifiable i.e. swimming pool or external building. The County Council also recognises a significant component within a block to be any component over £100,000 that individually exceeds 25% of the total value of the block and has a substantially different life to the overall structure.

### *Revaluation of Assets*

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally gains are credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Revaluation losses due to a general fall in market price are first offset against any balance that is on the Revaluation Reserve and are only charged to the Comprehensive Income and Expenditure Statement when the Revaluation Reserve has been cleared to nil.

Upon disposal of a non-current asset any revaluation gains for that asset are transferred from the Revaluation Reserve to the Capital Adjustment Account.
Revaluation gains are also subject to depreciation, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### *Impairment of Assets*

Impairment of non-current assets arising from the clear consumption of economic benefit e.g. physical damage such as a major fire is assessed each year-end as to whether there is any indication that an asset may be impaired. Where impairment losses are identified they are firstly offset against any revaluation gains in the

Revaluation Reserve and only when this is cleared to nil is the balance charged to the relevant service line within the Comprehensive Income and Expenditure Statement.

All impairment charges to the Comprehensive Income and Expenditure Statement are reversed out via the Movement in Reserves Statement.

An impairment loss is only permitted to be reversed where there has been a change in the estimates used to value the asset's recoverable amount since the impairment loss was recognised. Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, upto the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised. The reversal of impairment losses is also assessed at the end of each financial year.

## *7. Heritage Assets*

The Authority's Heritage Assets are held in the Authority's museums and other cultural sites. We have categorised these Heritage Assets into 5 collections and these are held primarily to increase the knowledge, understanding and appreciation of the Authority's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on Property, Plant and Equipment within Non-Current Assets. However, some of the measurement rules are relaxed in relation to Heritage Assets as detailed below. The Authority's collections of Heritage Assets are categorised as follows;

- ***The Art Collection***
- ***The Archaeological Collection***
- ***The Working Life Collection***
- ***The Fashion Collection***
- ***The Civic Collection***

### *Heritage Assets- General*

Valuations for all of the above collections are based on 50% of the insurance valuation which is reviewed on an annual basis as the insurance policies are for double the market value. Assets are initially recognised at cost and will then be revalued for insurance purposes and will be valued at 50% of this valuation.

The carrying amounts of Heritage Assets are reviewed where there is evidence of impairment to Heritage Assets, e.g. where an item has suffered a physical deterioration or where there is a doubt to the authenticity of a piece of art. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment (accounting policy 6 above). Proceeds from the sale of Heritage Assets are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital receipts (accounting policy 11 below).

## 8. *Leased Assets and Deferred Purchase Arrangements*

In accordance with IAS 17 any lease that transfers substantially all of the risks and rewards incident to ownership of the asset will be classified as a finance lease. An operating lease is any lease other than a finance lease.

When assessing whether the lease is a finance lease the following criteria have been assessed:

- Lease transfers ownership at the end of the term.
- Lessee has option to purchase asset at price lower than fair value.
- Lease term is major part of economic life of the asset.
- Present value of minimum lease payments is substantially all of the fair value of the asset.
- Leased assets are so specialised in nature that only the lessee can use them without major modifications.

The County Council recognises both a major part of an asset's economic life and substantially all of the fair value of an asset to be 75% and over.

Assets acquired under finance leases are reflected in the appropriate category of non-current asset, together with a deferred liability to pay future rentals. In addition, assets financed by a deferred purchase arrangement are similarly reflected in non-current assets, with the liability to the merchant bank included in long term borrowings.

Rentals payable under operating leases are charged directly to Comprehensive Income and Expenditure Statement.

The County Council does not have any finance leases as a Lessor. Where operating leases exist, the assets are still shown on the Balance Sheet and any rental income is credited to the Comprehensive Income and Expenditure Statement.

## 9. *Revenue Expenditure Funded From Capital Under Statute*

Revenue expenditure funded from capital under statute represent expenditure which may be properly capitalised but which does not represent tangible assets. The County Council operates a policy of charging 100% of such expenditure to services within the Comprehensive Income and Expenditure Statement. Where this has been funded from existing capital resources a transfer in the Movement in Reserves Statement from the General Fund to the Capital Adjustment Account reverses out the amounts charged so there is no impact on the level of council tax.

## 10. *Basis of Charges for Capital*

Depreciation and Amortisation is chargeable to all services in the Comprehensive Income and Expenditure Statement, which utilise assets in the delivery of that service.

### a) *Depreciation*

Buildings are depreciated over their remaining useful economic lives as assessed by the property valuer, with no allowance for a residual value. No depreciation charge is made for the majority of land, community assets, assets under construction, refurbishment or assets held for sale.

Where assets suffer impairment, then dependent upon the reason for that impairment, an accelerated depreciation charge may be made to the Comprehensive Income and Expenditure Statement.

Where depreciation is provided for, assets are depreciated using the straight line method over the following periods:

- ***Buildings*** - varies from asset to asset (the remaining useful economic life of each asset is reviewed at the same time as the revaluation is completed, new builds are usually estimated to have a useful life of 70 years).
- ***Infrastructure*** - 40 years.
- ***Vehicles, Plant, Furniture and Equipment*** - estimated useful life (averaging around 5 years).
- ***Components-*** will vary between 20 – 50 years for new components/blocks

No depreciation is charged in the year of acquisition, whereas a full year's depreciation is charged in the year of disposal, with the exception of Leicestershire Highways trading account, where a half a year's charge for depreciation for vehicles, plant and equipment is made in the year of acquisition.

### *b) Amortisation*

Intangible Assets are amortised over their useful life of no more than 5 years.

## *11. Capital Receipts*

Proceeds from the sale of assets (if over £10,000) are credited to the Capital Receipts Reserve. All such receipts are available to the County Council to enhance its programme of capital expenditure or to reduce external borrowing. Receipts used are transferred to the Capital Adjustment Account. The extent to which receipts have not been utilised at year end are reflected in the Balance Sheet as Capital Receipts Reserve. Where Capital Receipts are deferred they are recognised in the Unusable Deferred Capital Receipts Reserve until backed by cash receipts at which point they are transferred to the Usable Capital Receipts Reserve.

Any gains/losses on disposal of assets are taken to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Statutory regulations require a reversal of this entry to the Capital Adjustment Account via the Movement in Reserves Statement to ensure no impact on the General County Fund Balance.

The County Council capitalises expenditure incurred on the preparation for and subsequent disposal of land and buildings. Such expenditure is written out of non-current assets as capital expenditure not increasing value and is normally financed from capital receipts.

## 12. Accruals of Income and Expenditure

The Comprehensive Income and Expenditure Statement of the County Council is maintained on an accruals basis. Thus, sums due to or amounts owing by the Council in respect of goods and services rendered but not paid for at 31 March are included in the accounts. The exceptions to this policy are as follows:

a) Annual IT software licences are brought into account in the year they become due and are not apportioned over the years to which they may relate.

b) Interest on staff car loans for the whole period of the loan is taken to the Comprehensive Income and Expenditure Statement when the loan is granted.

c) Provisions for doubtful debts are maintained for certain categories of income by individual departments.

## 13. Government Grants

The County Council accounts for grant in accordance with IAS 20. Government grants are accounted for on an accruals basis. Revenue grants have been credited to the appropriate service lines within the Comprehensive Income and Expenditure Statement.

From 2010/11 onwards, capital grants that have met any conditions attached and have been applied to fund capital expenditure will be credited to the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement. This will then be reversed from the General County Fund via the Movement in Reserves Statement to the Capital Adjustment Account. Capital grants that have not met any conditions attached are treated as Capital Grant Receipts in Advance. These will then be transferred to the Comprehensive Income and Expenditure Statement when the conditions have been satisfied or will be paid back if not.

Any capital grants that have met their conditions or have no conditions attached but have not been applied to fund capital expenditure are posted to the Capital Grants Unapplied Reserve. These will be transferred to the Capital Adjustment Account once they have been applied to capital expenditure.

## 14. Inventories and Work in Progress

Inventories are normally only maintained for certain specified major items; other immaterial stocks, e.g. cleaning materials, books and stationery, are fully charged to Comprehensive Income and Expenditure Statement in the year of purchase. Inventories are valued at cost price with allowance for obsolescent or slow moving stocks where material, with the exception of Leicestershire Highways, Central Print and Catering trading accounts where inventories are valued at average cost. Work in progress is shown at cost price.

## 15. Allocation of Support Service Costs

Expenditure of the various services includes a charge for all support services provided by the central departments of the County Council, other than the direct cost of councillors and their support which is disclosed separately in the Comprehensive Income and Expenditure Statement, as Corporate and Democratic Core and discretionary employee benefits awarded to employees retiring early and impairment losses on assets held for sale which are disclosed as Non Distributed Costs.

These charges are based upon various methods of allocation including staff time and volume of transactions. Office accommodation costs are based on floor areas occupied.

## 16. Financial Instruments

### a) Liabilities

Borrowings at fixed interest rates from either the PWLB or other financial institutions are recorded in the Balance Sheet at amortised cost.

#### Borrowing at Variable Interest

- Loans linked to the London Inter-bank Offered Rate (LIBOR) will be recorded at amortised cost.

- Loans at stepped interest rates (LOBO's) are recorded at fair value with interest charged to the Comprehensive Income and Expenditure Statement calculated at the effective rate of interest (essentially an average rate for the expected duration of that loan), rather than the cash paid in a year.

Statutory regulations enable the County Council to negate the additional interest arising on Lobo's (if loan arranged before November 2007) by posting a reversal within the Movement in Reserves Statement to the Financial Instruments Adjustment Account.

Any accrued interest at the end of a year is added to the principal sum outstanding.

#### Premiums and Discounts Arising from Premature Repayment of Debt.

- The County Council continuously reviews existing external loans and interest rates being paid, and has the option of restructuring or refinancing this debt. All such transactions are taken to the Comprehensive Income & Expenditure Statement in the year that the repayment is made.

- Statutory regulations enable the County Council to negate the additional charge/credit arising on such transactions by posting a reversal within the Movement in Reserves Statement to the Financial Instruments Adjustment Account.

- Premiums and discounts arising from premature repayments of debt arising since 1 April 2007 are charged to the Movement in Reserves Statement over the lesser of the remaining period of the loan(s) being repaid or a maximum of 10 years. All outstanding premiums arising from earlier periods are being charged over a period of up to 25 years.

The Financial Instruments Adjustment Account is the balancing account to hold the differences between statutory requirements and proper accounting practices for borrowings and investments.

### *b) Assets*

#### *Loans and Receivables*

- Investments at fixed interest rates with a fixed maturity date are recorded at amortised cost which corresponds to fair value.

#### *Soft Loans*

- Under certain criteria the County Council provides loans to foster parents and to older people with physical disabilities. These loans are interest free. The total value is considered to be immaterial to the County Council's accounts, therefore these loans have not been revalued on a fair value basis in accordance with the CIPFA COPLAA.

#### *Fair Value through the Comprehensive Income & Expenditure Statement*

- Forward investment deals (investment negotiated one year but with actual settlement in a future year). These are accounted for as a derivative between the trade and settlement dates. The difference between the agreed rate of interest with that attributable for a loan negotiated at 31 March with similar contractual terms will show a gain or loss that is taken to the Comprehensive Income and Expenditure Statement.

## *17. Employee Benefits*

The County Council accounts for the total benefit earned by employees during the financial year in accordance with IAS 19. Employee Benefits are broken down as follows:

- ***Short Term Benefits***

  Outstanding annual leave, flexi leave and Time Off in Lieu carried forward by employees is accounted as an accrual to each service area to represent the cost of when the leave is earned rather than when it is actually exercised. The accrual is charged to the Comprehensive Income and Expenditure Statement, but then reversed out through the Movement in Reserves Statement.

- ***Termination Benefits***

  Redundancy costs are recognised immediately in the Comprehensive Income and Expenditure Statement. Where termination benefits enhance pensions, statutory provisions require the General County Fund Balance to be charged with the amount payable by the County Council to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. The County Council recognises a liability and an expense when demonstrably committed to a detailed formal plan without realistic possibility of withdrawal. In the Movement in Reserves Statement, the notional debits and credits for enhanced pension benefits are replaced with the actual cash paid or due in year to the Pension Fund or pensioners.

- ***Post Employment Benefits***

***Pension Schemes***

The County Council participates in two pension schemes for employees in particular services. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

- ***Teachers***

  This is an unfunded scheme administered by the Teachers' Pension Scheme on behalf of the Department for Education.

- ***Other Employees***

  Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. This is a funded scheme with employees and employers paying contributions into the fund calculated at a level intended to balance liabilities with investment assets.

  In accordance with IAS 19 and in line with last year's treatment, quoted securities held as assets in the defined benefit pension scheme are valued at bid price rather than mid-market value.

  *Note*: In Leicestershire, the Local Government Pension Scheme is administered by Leicestershire County Council and the Pension Fund accounts are included later in this booklet.

***Pension Costs***

- ***Teachers***

  Accounting for this scheme follows that of a defined contribution scheme and thus there is no reflection of assets and liabilities in the County Council's accounts. The pension cost charged to the accounts is the contribution rate set by the TPA on the basis of a notional fund.

- ***The Local Government Pension Scheme***

  As a defined benefit scheme accounting arrangements follow the requirements of IAS 19 on Retirement Benefits, which requires the disclosure of the estimated pension net liability in the Balance Sheet whilst charges to the Comprehensive Income and Expenditure Statement are based upon the cost of benefits earned by employees in that year as assessed by an actuary.

  The liabilities of the scheme are calculated, by the actuary, on the 'projected unit method' based on assumptions of mortality rates, employee turnover and estimates of future earnings. These liabilities are discounted, based upon high quality corporate bond interest rates pertaining at the end of each financial year. Changes in this interest rate can result in considerable fluctuation in the overall liability, year on year.

The assets of the fund are shown at fair value;
- Quoted securities- current bid price
- Unquoted securities- professional estimate
- Unitised securities- current bid price
- Property- market value

The change in the net pensions liability is analysed into seven components:
- Current service cost- the increase in liabilities as a result of years of service earned this year- allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past service cost- the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years- debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Interest cost- the expected increase in the present value of liabilities during the year as they move one year closer to being paid- debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Expected return on assets- the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return- credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Gains or losses on settlements and curtailments- the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees- debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Actuarial gains and losses- changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions- charged to the Pension Reserve.
- Contributions paid to the Pension Fund- cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

The extent to which the costs of benefits earned differs to employers contributions paid in accordance with statutory regulations is reflected by a transfer to or from the Pension Reserve to ensure that these accounting arrangements do not impact on the levels of local taxation.

Since 2004/5 any new additional retirement benefits awarded to former employees within the local government pension scheme are subject to a one off payment from the income and expenditure account to the pension fund. Actual cash payments are charged to the pension fund. Payments of such benefits awarded prior to this date continue to be charged to the County Fund on a regular monthly basis.

## 18. *Value Added Tax (VAT)*

VAT incorporated in the income and expenditure account is limited to irrecoverable sums.

## 19. *Developer Contributions*

Income received towards public sector infrastructure that is required to be spent within a certain period of time is reported in the Balance Sheet as Capital Grants Receipts in Advance.

## 20. *Waste Disposal - Landfill Allowance Trading Scheme (LATS)*

Introduced in 2005/06 in order to provide financial incentives to reduce the amount of biodegradable municipal waste sent to landfill.

Annual allowances (in terms of tonnages) are allocated free of charge by the Department of Environment, Food, and Rural Affairs (DEFRA) to waste disposal authorities. If the actual waste tonnage exceeds that allowance the County Council either buys additional allowances from authorities with a surplus or incurs a penalty payable to DEFRA. Surplus allowances can usually be carried forward or sold to other waste disposal authorities.

The interim accounting arrangements that apply are based upon the fact that the actual usage of landfill will not be known until after the completion of the annual accounts. As such they comprise the creation of an intangible current asset based on allowances issued valued at average market price, coupled with a provision based on the estimated usage at the same average market price. The Comprehensive Income and Expenditure Statement includes, as grant income, the above valuation of the allowance whilst the estimated usage of the allowances is shown as expenditure. Due to the lack of market activity the Council holds surplus allowances at nil value.

## 21. *Collection Fund Adjustment Account*

The County Council is a precepting authority who levies a precept on the collection funds of billing authorities (district/borough Councils).

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax. The funds key features relevant to accounting for council tax in the core financial statements are:

***a)*** In its capacity as a billing authority an authority acts as an agent: it collects and distributes council tax income on behalf of the major preceptors and itself.

***b)*** While the council tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General County Fund of the billing authority or paid out of the Collection Fund to the major preceptors and in turn credited to their General Fund.

Up until 2008/9 the SORP required the council tax income included in the Comprehensive Income and Expenditure Statement to be the amount that under regulation was paid from the Collection Fund to the major preceptor. From the year commencing 1 April 2009 the council tax included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year. 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. This accounting treatment is still relevant under IFRS.

Since the collection of council tax is in substance an agency arrangement, the cash collected by the billing authority from council tax debtors belongs proportionally to the billing authority and the major preceptors. There will therefore be a debtor / creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from council taxpayers.

## 22. *Contingent Liabilities*

The County Council defines a contingent liability as either:

***a)*** A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the County Council, or

***b)*** A present obligation that arises from past events but is not recognised because:

   i. It is not probable that an outflow of resources will be required to settle the obligation, or
   ii. The amount of the obligation cannot be measured with sufficient reliability.

A material contingent liability is not recognised in the accounts as an item of expenditure. Instead it is disclosed in a note unless the possibility is remote in which case no disclosure is required. Contingent liabilities are continually assessed and if it becomes probable that a transfer of future economic benefits will be required a provision is recognised in the financial statements in the year in which the change occurs.
Details of these contingent liabilities are shown in note 42.

## 23. *Events after the Balance Sheet date*

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events can be identified:

***a)*** Those that provide evidence of conditions that existed at the end of the reporting period- the Statement of Accounts is adjusted to reflect such events.

***b)*** Those that are indicative of conditions that arose after the reporting period- the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes to the accounts 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 Statement of Accounts.

## 24. *Accounting for the Costs of the Carbon Reduction Commitment Scheme*

The Authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used) a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Authority is recognised and reported in the costs of the Authority's services and is apportioned to service areas on the basis of energy consumption.

# *Statement of Responsibilities for the Statement of Accounts*

### *THE AUTHORITY'S RESPONSIBILITIES*

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Corporate Resources,
- Manage its affairs 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 Constitution Committee on 27 September 2012.

**N RUSHTON**
**LEADER OF THE COUNTY COUNCIL AND CHAIRMAN OF THE CONSTITUTION COMMITTEE**

### *THE DIRECTOR OF CORPORATE RESOURCES' RESPONSIBILITIES*

The Director of Corporate Resources is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper accounting 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 Corporate Resources has:

- Selected suitable accounting policies and then applied them consistently,
- Made judgements and estimates that were reasonable and prudent,
- Complied with the Local Authority Code,
- Kept proper accounting records which were up to date,
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts has been prepared in accordance with proper practices and presents a true and fair view of the financial position of Leicestershire County Council and its income and expenditure for the year ended 31 March 2012.

**B D ROBERTS**
**DIRECTOR OF CORPORATE RESOURCES**
**27 SEPTEMBER 2012**

# Pension Fund

***(Registration number: 00328856RQ)***

## *Introduction*

1. Under Local Government Pension Scheme Regulations the County Council is required to maintain a Pension Fund for certain categories of its employees together with the majority of employees of District Councils and other bodies that were formerly under the control of Local Authorities.

   In addition, certain other bodies are eligible to join if the County Council agrees, and a number of voluntary/charitable bodies have obtained membership in this way. Membership of the scheme is optional for all employees, although a written election not to join must be made if employees wish to remain outside the scheme. Teachers, Firefighters and Police Officers all have their own schemes.

   Details of the other admitted and scheduled bodies in the Fund are shown in note 5.

   There were 30,679 contributors to the Fund at 31 March 2012 and 20,275 of pensions were in payment.

2. Actuarial Position:

   a) Local Government Pension Funds, in common with other pension funds in both public and private sectors, have periodic valuations to assess the extent to which assets accumulated are adequate to meet future liabilities. To ensure that the fund remains financially sound to meet benefit payments, the actuary recommends the rate of employer contributions on an individual employer basis for each employing body in the fund on a triennial basis.

      The Council's actuary, Hymans Robertson LLP completed the latest valuation, as at 31 March 2010. The change in contribution rates resulting from the actuarial valuation as at 31 March 2010 were effective from 1 April 2011. This review resulted in a requirement for the common contribution rate of employer's contributions to increase from 16% to 20% of pensionable pay. This common rate for all employers is adjusted to reflect the individual circumstances of different employing bodies.

   b) The valuation method adopted by the actuary is the projected unit valuation method which is consistent with the aim of achieving a 100% funding level. This assesses the cost of benefits accruing to existing members during the year following the valuation, allowing for future salary increases.

   c) The 2010 valuation revealed that the Fund's assets which at 31 March 2010 were valued at £2,111m, were sufficient to meet approximately 80% of the liabilities accrued up to that date. Assets were valued at their market value.

   d) In order to value both those liabilities which have accrued at the valuation date and those accruing in respect of future service, it has been assumed that the Fund's assets are invested in line with its long term investment strategy.

e) The key financial assumptions adopted for this valuation are as follows:

| **Financial Assumptions** | **Mar 2010 % p. a. Nominal** | **Mar 2010 % p. a. Real** |
|---|---|---|
| ‘Gilt based’ discount rate | 4.5% | 1.2% |
| Funding basis discount rate | 6.3% | 3.0% |
| Pay increases* | 5.3% | 2.0% |
| Price inflation/pension increases | 3.3% | 0.0% |

* 1% p.a. nominal until 31/03/2013 to 5.3% thereafter. Plus an allowance for promotional pay increases.

The nominal rate is the actual return and the real return takes into account inflation.

3. In 2011/12 the average employer rate was 17% of pay (15.9% 2010/11).

4. The County Council has delegated the management of the Fund to its Pension Fund Management Board, which consists of eleven voting members and three non-voting staff representatives. The voting members are split into six County Council members, two from Leicester City Council and two representing the District Councils and a single member representing De Montfort / Loughborough Universities. The Board receives investment advice from Hymans Robertson LLP and meets quarterly to consider relevant issues.

5. List of admitted and scheduled bodies:

   The Pension Fund contributors include Blaby District Council, Charnwood Borough Council, Connexions Services, Connexions Trading, De Montfort University, Harborough District Council, Hinckley & Bosworth Borough Council, Leicester City Council, Leicester, Leicestershire and Rutland Combined Fire Authority, Leicestershire Constabulary, Leicestershire County Council, Leicestershire & Rutland Probation Board, Loughborough University, Melton Borough Council, North West Leicestershire District Council, Oadby & Wigston Borough Council, Rutland County Council, Colleges of Further Education and Sixth Form Colleges consisting of Brooksby Melton College, Gateway Sixth Form College, Leicester College, Loughborough College, Regent College, South Leicestershire College, Stephenson College, Wyggeston QE1 College, Academies consisting of Brooke Hill, Catmose Business and Enterprise College, Catmose Federation, Fairfield, Forest Way, Glen Hills, Humphrey Perkins, John Ferneley, Kibworth High, Krishna Avanti Free School, Limehurst, Lutterworth High, Manor High, Rawlins, Martin High, Robert Smyth, Samworth Enterprise Academy, South Wigston High, Stephenson Studio School, Uppingham Community College, Welland Park, Woodbrook Vale, Parish and Town Councils consisting of Anstey, Asfordby, Ashby, Ashby Woulds, Barrow Upon Soar, Braunstone, Broughton Astley, Countesthorpe, Glen Parva, Kirby Muxloe, Leicester Forest East, Lutterworth, Market Bosworth, Mountsorrel, Ravenstone with Snibston, Shepshed, Sileby, Syston, Thurmaston, Whetstone. Other employers consist of ABM Catering, Age Concern, Bradgate Park Trust, Capita Business Services, Charnwood Neighbourhood Housing, East Midlands Regional Control Centre, East West Community Project, Family Action, Fusion Lifestyle, G4S, Highfields Community Association, Howells Solicitors, ICare, Jeakins Weir, Melton Learning Hub, National Youth Agency, Northgate Managed Services, Rushcliffe Care, Seven Locks Housing, SLM Community Leisure, Spire Homes, Three Oaks Homes, VISTA, Voluntary Action Leicester.

# *Fund Account for the Year Ended 31 March 2012*

| 2010/11 £m | | Notes | 2011/12 £m | |
|---|---|---|---|---|
| | **Contributions and Benefits** | | | |
| 134.3 | Contributions | 3 | 132.5 | |
| 12.8 | Transfers in | 4 | 6.3 | |
| 147.1 | | | 138.8 | |
| (103.0) | Benefits | 5 | (116.9) | |
| (9.2) | Leavers | 6 | (7.7) | |
| (1.2) | Administrative Expenses | 7 | (1.1) | |
| (113.4) | | | (125.7) | |
| **33.7** | **Net additions from dealings with members** | | | **13.1** |
| | **Returns on investments** | | | |
| 30.9 | Investment income | 8 | 32.3 | |
| 148.8 | Change in market value of investments | 9 | (15.4) | |
| (7.6) | Investment management expenses | 11 | (7.7) | |
| **172.1** | **Net returns on investments** | | | **9.2** |
| **205.8** | **Net increase in the fund during the year** | | | **22.3** |
| | Net assets of the scheme | | | |
| 2,108.4 | At 1 April | | | 2,314.2 |
| **2,314.2** | **At 31 March** | | | **2,336.5** |

# Net Assets Statement as at 31 March 2012

| 2010/11 £m | | Notes | 2011/12 £m |
|---|---|---|---|
| 2,327.0 | Investment assets | 9 | 2,338.0 |
| (15.9) | Investment liabilities | 9 | (8.8) |
| **2,311.1** | | | **2,329.2** |
| 9.6 | Current Assets | 13 | 9.9 |
| (6.5) | Current Liabilities | 13 | (2.6) |
| **2,314.2** | **Net Assets of the Fund at 31 March** | | **2,336.5** |

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position on the Scheme, which does take account of such obligations, is set out in the Actuary's Report.

The notes on pages 104 to 124 form part of the Financial Statements.

# Notes to the Accounts

## 1. Basis of Preparation

The financial statements have been prepared in accordance with the provisions of International Financial Reporting Standard (IFRS) and the Code of Practice on Local Authority Accounting issued by Chartered Institute of Public Finance and Accountancy.

## 2. Accounting policies

The following principal accounting policies, which have been applied consistently, have been adopted in the preparation of the financial statements:

### Investments

All assets that had bid and offer prices were valued at bid price. Many of the Fund's investments are 'single priced' (i.e. no bid and offer prices exist), and these investments use the single price available.

Private equity valuations are based on the latest available valuations of the managers, adjusted for any cash movements where this valuation is not at 31 March.

The value of fixed interest investments in the Scheme's investment portfolio excludes interest earned but not paid over at the Scheme year end, which is included separately within accrued investment income.

Property investments are stated at open market value based on an expert valuation.

Options are valued at their mark to market value.  Forward foreign exchange contracts outstanding at the year end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.  The investment reconciliation table in note 9 discloses the forward foreign exchange settled trades as net receipts and payments.

### Investment Income

Income from equities is accounted for on the date stocks are quoted ex-dividend. Income from overseas investments is recorded net of any withholding tax.

Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from other investments is accounted for on an accruals basis.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

### *Foreign currencies*

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated at a rate that is relevant at the time of the receipt of the income or the exchange rate at the year end, whichever comes first.

Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

### *Contributions*

Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate issued by the fund's actuary. Additional contributions from the employer are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.

Additional payments for early retirements relate to the actuarially assessed extra cost to the Fund of employing bodies allowing their members to retire in advance of normal retirement age. These costs are reimbursed to the Fund by employing bodies.

### *Benefits payable*

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.

Other benefits are accounted for on the date the member leaves the scheme or on death.

### *Transfers to and from other schemes*

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the Scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before the year end, and where the amount of the transfer can be determined with reasonable certainty.

### *Other Expenses*

Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.

Employee expenses have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged.

## 3. *Contributions*

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| ***Employers*** | | |
| Normal | 92.7 | 92.7 |
| Voluntary additional | 0.2 | 0.0 |
| Advanced payments for early retirements | 4.3 | 4.2 |
| Additional payments for ill-health retirements | 0.0 | 0.1 |
| ***Members*** | 36.4 | 34.9 |
| Normal | 0.7 | 0.6 |
| Purchase of additional benefits | | |
| **Total** | **134.3** | **132.5** |

Additional payments for early retirements are paid by employers to reimburse the Pension Fund for the cost to the Fund of employees who are allowed to retire before their normal retirement age. Additional payments for ill-health retirements are paid by the insurance company, where the employer has taken out ill-health insurance and the claim has been accepted as valid. Purchase of additional benefits by members allows extra service to be credited on top of any service earned via employment.

The contributions can be analysed by the type of Member Body as follows:

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Leicestershire County Council | 47.9 | 46.7 |
| Scheduled bodies | 78.9 | 79.2 |
| Admitted bodies | 7.5 | 6.6 |
| **Total** | **134.3** | **132.5** |

## 4. *Transfers In*

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Individual transfers in from other schemes | 9.1 | 6.3 |
| Bulk transfers from other schemes | 3.7 | 0.0 |
| **Total** | **12.8** | **6.3** |

The bulk transfer relates to the benefits for former Magistrate's Courts employees who retain benefits within the scheme. The Ministry of Justice will make this payment in 10 equal instalments commencing in April 2011, and the 9 outstanding instalments are included as an asset of the Fund within note 13.

## 5. Benefits

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Pensions | 71.6 | 79.0 |
| Lump sum retirement benefit | 28.4 | 35.1 |
| Lump sum death benefit | 3.0 | 2.8 |
| **Total** | **103.0** | **116.9** |

The benefits paid can be analysed by type of Member Body as follows:-

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Leicestershire County Council | 41.5 | 44.7 |
| Scheduled bodies | 53.9 | 64.5 |
| Admitted bodies | 7.6 | 7.7 |
| **Total** | **103.0** | **116.9** |

There are amounts included in Scheduled bodies which relate to pensions paid to former employees of De Montfort University and Loughborough College of Art & Design who left active service when these organisations were still the responsibility of Leicestershire County Council, the administering authority. These former employees are correctly identified within the pensions administration system as pensioners of Leicestershire County Council and, as a result are treated correctly within the actuarial valuation. Accounting records, however, identify the payments made as the individual organisations and as the amounts are not separately identifiable it has not been possible to adjust the figures accordingly. If it were possible to identify the amounts it would increase the figure for Leicestershire County Council and reduce the amount for Scheduled bodies.

## 6. Payments to and on account of leavers

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Individual transfers to other schemes | 9.2 | 7.7 |
| Group transfers to other schemes | 0 | 0 |
| **Total** | **9.2** | **7.7** |

## 7. Administration Expenses

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Administration and processing | 1.0 | 1.0 |
| Actuarial fees | 0.1 | 0.1 |
| Computer system costs | 0.1 | 0.0 |
| **Total** | **1.2** | **1.1** |

## 8. *Investment Income*

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Income from fixed interest securities | 0.0 | 0.3 |
| Dividends from equities | 16.1 | 16.0 |
| Income from index-linked securities | 0.5 | 1.1 |
| Income from pooled investment vehicles | 7.5 | 7.9 |
| Net rents from properties | 6.1 | 6.1 |
| Interest on cash or cash equivalents | 0.3 | 0.5 |
| Net Currency Profit / (Loss) | 0.1 | 0.2 |
| Securities Lending Commission | 0.2 | 0.1 |
| Insurance Commission | 0.1 | 0.1 |
| **Total** | **30.9** | **32.3** |

## 9. *Investments*

| | Value at 1 April 2011 £m | Purchases at Cost £m | Sales Proceeds £m | Change In Market Value £m | Value at 31 March 2012 £m |
|---|---|---|---|---|---|
| Equities | 601.8 | 176.1 | (682.9) | (16.8) | 78.2 |
| Index-linked securities | 41.0 | 124.9 | (41.4) | 11.3 | 135.8 |
| Fixed Income Securities | 0.0 | 83.5 | (56.9) | (0.6) | 26.0 |
| Pooled investment vehicles | 1,529.9 | 817.2 | (384.7) | (6.9) | 1,955.5 |
| Properties | 74.1 | 4.2 | (10.7) | (1.6) | 66.0 |
| Cash and currency | 66.2 | 0.0 | (9.3) | 0.0 | 56.9 |
| Derivatives contracts | (5.8) | 32.4 | (21.8) | (0.7) | 4.1 |
| Other investment balances | 3.9 | 2.8 | 0.0 | 0.0 | 6.7 |
| **Total** | **2,311.1** | **1,241.1** | **(1,207.7)** | **(15.3)** | **2,329.2** |

The change in the value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The Fund has investments in the Legal & General UK equity index fund (£506.0m), the Legal & General Europe (ex UK) index fund (£201.7m), the Legal & General North America index fund (£225.8m), the Legal & General Asia Pacific (ex Japan) Developed Market index fund (£117.8m), and the Pictet Absolute Return Global Diversified fund (£124.7m) that exceed 5% of the total value of net assets.

The Fund has no investments which exceed 5% of any class or type of security.

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| ***Equities*** | | |
| UK quoted | 352.3 | 20.8 |
| Overseas quoted | 249.5 | 57.4 |
| | **601.8** | **78.2** |
| ***Fixed Interest Securities*** | | |
| Overseas Government quoted | **0.0** | **26.0** |
| ***Index Linked Securities*** | | |
| UK quoted | 18.6 | 59.2 |
| Overseas quoted | 22.4 | 76.6 |
| | **41.0** | **135.8** |
| ***Pooled investment vehicles (unquoted)*** | | |
| Property funds | 193.6 | 197.1 |
| Private equity | 108.6 | 110.7 |
| Corporate bond funds | 121.6 | 123.1 |
| Hedge funds | 144.2 | 122.3 |
| Equity-based funds | 786.0 | 1,200.0 |
| Commodity-based funds | 53.9 | 72.5 |
| Targeted return fund | 122.0 | 124.7 |
| Infrastructure fund | 0.0 | 5.1 |
| | **1,529.9** | **1,955.5** |
| ***Properties*** | | |
| **UK (Note 11)** | **74.1** | **66.0** |
| | | |
| **Cash and currency** | **66.2** | **56.9** |
| *Derivatives contracts* | | |
| Forward foreign exchange assets | 5.1 | 9.0 |
| Currency option assets | 1.9 | 0.9 |
| Other option assets | 1.1 | 0.4 |
| Other future assets | 2.0 | 2.6 |
| Forward foreign exchange liabilities | (15.0) | (6.9) |
| Currency option liabilities | (0.1) | (0.1) |
| Other option liabilities | (0.2) | (0.0) |
| Other Future Liabilities | (0.6) | (1.8) |
| **Sterling Denominated** | **(5.8)** | **4.1** |
| **Other Investment Balances** | **3.9** | **6.7** |
| **Total Investments** | **2,311.1** | **2,329.2** |

Pooled and Unitised Funds are included in the asset class in which the underlying investments are made.

## 10. Derivatives

The Fund holds derivatives for a number of different reasons. Forward foreign exchange contracts are held to benefit from expected changes in the value of currencies relative to each other. Futures can be held to gain full economic exposure to markets without the requirement to make the full cash investment, and the Fund held futures in North American equity markets in order to ensure that cash was available for the Fund's asset allocation manager to run its portfolio efficiently and without the requirement for the Fund to lose market exposure. Options are generally used to express an investment view but can give a much higher economic exposure than is required to be paid for the options – they also ensure that the potential loss is limited to the amount paid for the option.

*Forward Foreign Exchange Contracts*

All forward foreign exchange contracts are classed as 'Over the Counter' and at 31 March the net exposure to forward foreign exchange contracts can be summarised as follows:

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Active currency positions (those whose purpose is solely to seek economic gain) Administration, management and custody | 2.3 | 0.5 |
| Passive currency positions (those whose purpose is to hedge the Fund's benchmark exposure to currencies back to sterling) | 7.6 | (2.6) |
| **Total** | **9.9** | **(2.1)** |

*Options*

All options held by the Fund were exchange traded. The value of these options and the assets to which they were exposed can be summarised as follows:

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Commodity-based | 0.5 | 0.0 |
| Currency-based | 1.8 | 0.8 |
| Interest rate-based | 0.1 | 0.0 |
| Equity rate-based | 0.3 | 0.4 |
| **Total** | **2.7** | **1.2** |

*Futures*

All futures held by the Fund were exchange traded. The value of these options and the assets to which they were exposed can be summarised as follows:

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Commodity-based | (0.0) | (0.4) |
| Bond-based | (0.2) | (0.0) |
| Equity market volatility-based | (0.3) | (0.0) |
| European dividend-based | 0.9 | (0.2) |
| Equity market-based | 1.0 | 1.4 |
| **Total** | **1.4** | **0.8** |

## *11. Investment Management Expenses*

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Administration, management and custody | 7.5 | 7.6 |
| Other advisory fees | 0.1 | 0.1 |
| **Total** | **7.6** | **7.7** |

## *12. Property Investments*

| | 31 March 2011 £m | 31 March 2012 £m |
|---|---|---|
| Freehold | 60.6 | 53.5 |
| Long Leasehold (over 50 years unexpired) | 7.7 | 8.0 |
| Short Leasehold (under 50 years unexpired) | 5.8 | 4.5 |
| **Total** | **74.1** | **66.0** |

All properties, except the Fund's farm investment, were valued on an open market basis by Nigel Holroyd and Adrian Payne of Colliers Capital UK at 31 March 2012. The Fund's farm was valued on an open market basis by James Forman of Leicestershire County Council. All valuers are Associates of the Royal Institute of Chartered Surveyors.

## *13. Current Assets and Liabilities*

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Contributions due from employers | 5.7 | 6.4 |
| Cash Balances | 0.1 | 0.0 |
| Other Debtors | 0.2 | 0.2 |
| Due from Leicestershire County Council | 0.0 | 0.0 |
| Due from Ministry of Justice | 3.6 | 3.3 |
| **Current assets** | **9.6** | **9.9** |
| Due to Leicestershire County Council | (4.1) | (0.7) |
| Fund Management Fees Outstanding | (2.1) | (1.3) |
| Other Creditors | (0.3) | (0.6) |
| **Current liabilities** | **(6.5)** | **(2.6)** |
| **Net current assets and liabilities** | **3.1** | **7.3** |

## 14. *Analysis of Investments by Manager*

The Fund employs external investment managers to manage all of its investments apart from an amount of cash and a farm property, which are managed by Leicestershire County Council. This structure ensures that the total Fund performance is not overly influenced by the performance of any one manager.

The market value of investments in the hands of each manager is shown in the table below:-

| | At 31 March 2011 £m | % | At 31 March 2012 £m | % |
|---|---|---|---|---|
| ***Investment Manager*** | | | | |
| Legal & General | 726.6 | 31.4 | 1,073.2 | 46.1 |
| Aviva Investors | 229.7 | 9.9 | 209.0 | 9.0 |
| Ruffer LLP | 119.7 | 5.2 | 166.8 | 7.2 |
| Aegon Asset Management | 27.9 | 1.2 | 142.1 | 6.1 |
| Pictet Asset Management | 122.0 | 5.3 | 124.7 | 5.3 |
| Adams Street Partners | 105.6 | 4.6 | 107.6 | 4.6 |
| Fauchier Partners | 121.6 | 5.3 | 92.5 | 4.0 |
| Colliers Capital UK | 95.0 | 4.1 | 86.9 | 3.7 |
| Delaware Investments | 36.1 | 1.6 | 80.9 | 3.5 |
| JP Morgan Asset Management | 0.0 | 0.0 | 76.3 | 3.3 |
| Investec Asset Management | 46.2 | 2.0 | 67.2 | 2.9 |
| Prudential / M&G | 20.1 | 0.9 | 41.6 | 1.8 |
| Capital International | 261.5 | 11.3 | 41.3 | 1.8 |
| Kravis Kohlberg Roberts | 0.0 | 0.0 | 5.1 | 0.2 |
| Catapult Venture Managers | 2.8 | 0.1 | 3.1 | 0.1 |
| Standard Life Investments | 312.4 | 13.5 | 0.7 | 0.0 |
| UBS Global Asset Management | 70.7 | 3.0 | 0.5 | 0.0 |
| Goldman Sachs | 0.0 | 0.0 | 0.0 | 0.0 |
| Internally Managed and Currency Managers | 13.2 | 0.6 | 9.7 | 0.4 |
| **Total** | **2,311.1** | | **2,329.2** | |

## 15. *Custody of Assets*

All of the Fund's assets are held by external custodians and are therefore not at risk from the financial failure of any of the Fund's investment managers. The custodian used is dependent on the type of asset and the portfolio to which the asset belongs.

## 16. *Operation and Management of fund*

Details of how the Fund is administered and managed are included in the 2011/12 Pension Fund Annual Report.

## 17. Employing bodies and fund members

A full list of bodies that have active members within the Fund is included on page 99.

## 18. Actuarial valuation

At the date of the Fund's last actuarial valuation (31 March 2010) the Fund had assets of £2,111m. At that date the Fund's assets covered 80% of its accrued liabilities.

## 19. Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of the information used to determine fair values.

*Level 1*
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprised quoted equities, quoted fixed interest securities, quoted index-linked securities and pooled investment vehicles where the underlying assets fall into one of these categories.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

*Level 2*
Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

*Level 3*
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, hedge funds and infrastructure, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Leicestershire County Council Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP.

The values of the investment in hedge funds and infrastructure are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following tables provide an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which fair value is observable.

| | Quoted market price | Using observable inputs | With significant unobservable inputs | |
|---|---|---|---|---|
| **Values at 31st March 2012** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **£000** | **£000** | **£000** | **£000** |
| Financial assets at fair value | 1,790,118 | 309,806 | 238,079 | 2,338,003 |
| Financial liabilities at fair value | (8,844) | | | (8,844) |
| **Net financial assets** | **1,781,274** | **309,806** | **238,079** | **2,329,159** |

| | Quoted market price | Using observable inputs | With significant unobservable inputs | |
|---|---|---|---|---|
| **Values at 31st March 2011** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **£000** | **£000** | **£000** | **£000** |
| Financial assets at fair value | 1,781,476 | 292,820 | 252,678 | 2,326,974 |
| Financial liabilities at fair value | (15,885) | | | (15,885) |
| **Net financial assets** | **1,765,591** | **292,820** | **252,678** | **2,311,089** |

## *20. The Nature and Extent of Risks Arising from Financial Instruments*

***Risk and risk management***

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore the aim on investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet the Fund's required cash flows. These investment risks are managed as part of the overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Management Board.

**a) Market risk**

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, Leicestershire County council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks via an annual strategy review which ensures that market risk remains within acceptable levels. On occasions equity futures contracts and exchange traded option contracts on individual securities may be uses to manage market risk on investments, and in exceptional circumstances over-the-counter derivative contracts may be used to manage specific aspects of market risk.

*Other price risk*

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such investments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. For all investments held by the Fund, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure that it is within the limits specified in the Fund's investment strategy.

*Other price risk – sensitivity analysis*

Following analysis of historic data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, Leicestershire County Council has determined that the following movements in market prices risk are reasonably possible for the 2012/13 reporting period:

| **Asset type** | **Potential market movements (+/-)** |
|---|---:|
| Overseas government bonds | 8% |
| Global credit | 10% |
| Global government index-linked bonds | 8% |
| UK equities | 16% |

| | |
|---|---|
| Overseas equities | 16% |
| UK property | 8% |
| Private equity | 22% |
| Infrastructure | 17% |
| Commodities | 16% |
| Hedge funds | 8% |

The potential price changes disclosed above are broadly consistent with one-standard deviation movement in the value of assets. The sensitivities are consistent with the assumptions contained in the annual strategy review and the analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown in the second table):

| **Asset type** | **Value at 31st March 2012** | **Percentage change** | **Value on increase** | **Value on decrease** |
|---|---|---|---|---|
| | **£000** | **%** | **£000** | **£000** |
| UK equities | 20,745 | 16.0 | 24,064 | 17,426 |
| Overseas equities | 57,427 | 16.0 | 66,615 | 48,239 |
| Global index-linked bonds | 135,791 | 8.0 | 146,654 | 124,928 |
| Overseas government bonds | 26,012 | 8.0 | 28,093 | 23,931 |
| Pooled property funds | 197,058 | 8.0 | 212,823 | 181,293 |
| Pooled private equity funds | 110,639 | 22.0 | 134,980 | 86,298 |
| Pooled global credit funds | 123,050 | 10.0 | 135,355 | 110,745 |
| Pooled hedge funds | 122,326 | 8.0 | 132,112 | 112,540 |
| Pooled equity funds | 1,200,001 | 16.0 | 1,392,001 | 1,008,001 |
| Pooled commodity funds | 72,529 | 16.0 | 84,134 | 60,924 |
| Pooled targeted return funds | 124,693 | 8.0 | 134,668 | 114,718 |
| Pooled infrastructure fund | 5,114 | 17.0 | 5,983 | 4,245 |
| UK property | 65,986 | 8.0 | 71,265 | 60,707 |
| Cash and currency | 56,915 | 0.0 | 56,915 | 56,915 |
| Options, futures, other investment balances, current assets and current liabilities | 18,289 | 0.0 | 18,289 | 18,289 |
| **Total assets available to pay benefits** | **2,336,575** | | **2,643,951** | **2,029,199** |

| Asset type | Value at 31st March 2011 | Percentage change | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £000 | % | £000 | £000 |
| UK equities | 352,337 | 16.0 | 408,711 | 295,963 |
| Overseas equities | 249,471 | 16.0 | 289,386 | 209,556 |
| Global index-linked bonds | 41,001 | 8.0 | 44,281 | 37,721 |
| Pooled property funds | 193,647 | 8.0 | 209,139 | 178,155 |
| Pooled private equity funds | 108,457 | 22.0 | 132,318 | 84,596 |
| Pooled global credit funds | 121,558 | 10.0 | 133,714 | 109,402 |
| Pooled hedge funds | 144,221 | 8.0 | 155,759 | 132,683 |
| Pooled equity funds | 786,034 | 16.0 | 911,799 | 660,269 |
| Pooled commodity funds | 53,872 | 16.0 | 62,492 | 45,252 |
| Pooled targeted return funds | 122,031 | 8.0 | 131,793 | 112,269 |
| UK property | 74,108 | 8.0 | 80,037 | 68,179 |
| Cash and currency | 66,219 | 0.0 | 66,219 | 66,219 |
| Options, futures, other investment balances, current assets and current liabilities | 1,282 | 0.0 | 1,282 | 1,282 |
| **Total assets available to pay benefits** | **2,314,238** | | **2,626,930** | **2,001,546** |

*Interest rate risk*
The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is not highly exposed to interest rate risk but monitoring is carried out to ensure that the exposure is close to the agreed asset allocation benchmark.

The Fund's direct exposure to interest rate movements as at 31st March 2012 and 31st March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

| Asset type | As at 31st March 2012 | As at 31st March 2011 |
|---|---|---|
| Cash and Currency | 56,915 | 66,219 |
| Fixed interest securities | 26,012 | 0 |
| **Total** | **82,927** | **66,219** |

*Interest rate risk sensitivity analysis*
The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets to pay benefits, A 1% movement in interest rates (100 BPS) is consistent with the level of sensitivity expected within the Fund's asset allocation strategy and the Fund's investment advisors expect that long-term average rates are expected to move less than 100 BPS from one year to the next and experience suggest that such movements are likely. The analysis that follows

assumes that ll other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates.

| **Asset type** | **Carrying amount as at 31st March 2012** | **Change in year in the net assets available to pay benefits** | |
|---|---|---|---|
| | | +100 BPS | -100 BPS |
| | £000 | £000 | £000 |
| Cash and Currency | 56,915 | 569 | (569) |
| Fixed interest securities | 26,012 | 2,601 | (2,601) |
| **Total** | **82,927** | **3,170** | **(3,170)** |

| **Asset type** | **Carrying amount as at 31st March 2011** | **Change in year in the net assets available to pay benefits** | |
|---|---|---|---|
| | | +100 BPS | -100 BPS |
| | £000 | £000 | £000 |
| Cash and Currency | 66,219 | 662 | (662) |

*Currency risk*
Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk in financial instruments that are denominated in any other currency other than sterling. The Fund holds both monetary and non-monetary assets denominated in currencies other than sterling.
The Fund's currency rate risk is actively managed and the neutral position is to hedge 50% of the exposure back to sterling. The table below summarises the Fund's unhedged currency exposure at as 31st March 2012 and as at the previous period end:

| **Currency exposure – asset type** | **Asset value as at 31st March 2012** | **Asset value as at 31st March 2011** |
|---|---|---|
| | **£000** | **£000** |
| Overseas equities | 57,427 | 249,471 |
| Overseas government index-linked bonds | 76,582 | 22,356 |
| Overseas government bonds | 26,012 | 0 |
| Private equity pooled funds | 107,518 | 105,672 |
| Pooled hedge Funds | 89,261 | 111,823 |
| Overseas equity-based pooled funds | 750,523 | 528,259 |
| Commodity-based pooled funds | 72,529 | 53,872 |
| Infrastructure pooled funds | 5,114 | 0 |
| **Total overseas assets** | **1,184,966** | **1,071,453** |

*Currency risk – sensitivity analysis*
Following analysis of historical data in consultation with the Fund's investment advisors, it is considered that the likely volatility associated with foreign exchange rate movements is 13% (as measured by one standard deviation).

A 13% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of the long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 13% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| **Currency exposure – asset type** | **Asset value as at 31st March 2012** | **Change to net assets available to pay benefits** | |
|---|---|---|---|
| | | **+13%** | **-13%** |
| | **£000** | **£000** | **£000** |
| Overseas equities | 57,427 | 64,893 | 49,961 |
| Overseas government index-linked bonds | 76,582 | 86,538 | 66,626 |
| Overseas government bonds | 26,012 | 29,394 | 22,630 |
| Private equity pooled funds | 107,518 | 121,495 | 93,541 |
| Pooled hedge Funds | 89,261 | 100,865 | 77,657 |
| Overseas equity-based pooled funds | 750,523 | 848,091 | 652,955 |
| Commodity-based pooled funds | 72,529 | 81,958 | 63,100 |
| Infrastructure pooled funds | 5,114 | 5,779 | 4,449 |
| **Total change in assets available** | **1,184,966** | **1,339,013** | **1,030,919** |

| **Currency exposure – asset type** | **Asset value as at 31st March 2011** | **Change to net assets available to pay benefits** | |
|---|---|---|---|
| | | **+13%** | **-13%** |
| | **£000** | **£000** | **£000** |
| Overseas equities | 249,471 | 281,902 | 217,040 |
| Overseas government index-linked bonds | 22,356 | 25,262 | 19,450 |
| Private equity pooled funds | 105,672 | 119,409 | 91,935 |
| Pooled hedge Funds | 111,823 | 126,360 | 97,286 |
| Overseas equity-based pooled funds | 528,259 | 596,933 | 459,585 |
| Commodity-based pooled funds | 53,872 | 60,875 | 46,869 |
| **Total change in assets available** | **1,071,453** | **1,210,741** | **932,165** |

b) Credit risk
Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

Deposits are not made with banks and financial institutions unless they are rated independently and have a high credit rating. Many of the Fund's investment managers use the money market fund run by the Fund's custodian to deposit any cash within their portfolios, although 1 manager (Kames Capital) lends cash directly to individual counterparties in the London money markets. Any cash held directly by the Fund is deposited in an instant access high interest account with National Westminster Bank.

The Fund believes it has managed its exposure to credit risk, and has never had any experience of default of uncollectible deposits. The Fund's cash holding at 31st March 2012 was £56.915m (31st March 2011: £66.219m). This was held with the following institutions;

c) Liquidity risk
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. All of the Fund's cash holdings are available for immediate access, although on some occasions this will involve withdrawing cash balances from the portfolios of investment managers.

The Fund is allowed to borrow to meet short-term cash flow requirements, although this is an option that is only likely to be used in exceptional circumstances.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert to cash. As at 31st March 2012 the value of illiquid assets (considered to be the Fund's investments in property, hedge funds, private equity and infrastructure) was £501.123m, which represented 21.5% of total Fund assets. (31st March 2011: £512.544m, which represented 22.2% of total Fund assets).

The Fund remains cash flow positive for non-investment related items so there is no requirement to produce detailed cash flow forecasts. All investment related cash flows are known about sufficiently far in advance that they can be covered by taking action in a manner that is both cost-effective and in line with the Fund's investment strategy.

All financial liabilities at 31st March 2012 are due within one year.

*Refinancing risk*
The key risk is that the Fund will be forced to sell a significant proportion of its financial instruments at a time of unfavourable interest rates, but this appears a highly unlikely scenario. The Fund's investment strategy and the structure of its portfolios have sufficient flexibility to ensure that any required sales are considered to be the ones that are in the best financial interests of the Fund at that time. There are no financial instruments that have a refinancing risk as part of the Fund's treasury management and investment strategies.

*Securities Lending*
As at 31 March 2012, £4.6m of stock was on loan to an agreed list of approved borrowers through the Fund's Custodian in its capacity as agent lender. The loans were all in respect of equities and were covered by £4.9m of non-cash collateral.

Collateral is marked to market, adjusted daily and held by the custodian on behalf of the Fund. Income from stock lending amounted to £0.135m during the year and is detailed in note 8 to the accounts.

The Fund retains its economic interest in stocks on loan, and therefore the value is included in the Fund valuation, however there is an obligation to return collateral to the borrowers, therefore its value is excluded from the Fund valuation. The securities lending programme is indemnified, giving the Fund further protection against losses.

*Reputational Risk*
The Fund's prudent approach to the collective risks listed above and through best practice in corporate governance, ensures that reputational risk is kept to a minimum.

## 21. Related Party Transactions

From the information currently available there were no material transactions with related parties in 2011/12 that require disclosure under FRS8.

## 22. Contingent Liabilities

When a member has left the Pension Fund before accruing sufficient service to qualify for a benefit from the scheme, they may choose either a refund of contributions or a transfer value to another pension fund. There are a significant number of these leavers who have not taken either of these options and as their ultimate choice is unknown, it is not possible to reliably estimate a liability. The impact of these 'frozen refunds' has, however, been considered in the calculation of the actuarial liabilities of the fund.

If all of these individuals choose to take a refund of contributions the cost to the Fund will be around £0.8m, although the statutory requirement of the Fund to pay interest to some members would increase this figure. Should all of the members opt to transfer to another scheme the cost will be considerably higher.

## 23. Contractual Commitments

At 31 March 2012, the Fund had the following contractual commitments:-

a) Undrawn commitments totalling $93,912,750 (£58,778,125) to twenty two different pooled private equity funds managed by Adams Street Partners (31 March 2011 £55,987,804 to twenty two different funds).

b) An undrawn commitment of £1,414,003 to two private equity funds managed by Catapult Venture Managers (31 March 2011 £2,443,635 to two funds).

c) An undrawn commitment of £34,151,792 to the Prudential/M&G UK Companies Financing Fund (31 March 2011 £55,230,482).

d) An undrawn commitment of $47,553,000 (£29,762,478) to the KKR Global Infrastructure Fund (31 March 2011 £nil).

e) An undrawn commitment of $56,000,000 (£35,049,288) to the IFM Global Infrastructure Fund (31 March 2011 £nil).

## 24. Additional Voluntary Contributions (AVC's)

The Fund has an arrangement with Prudential whereby additional contributions can be paid to them for investment, with the intention that the accumulated value will be used to purchase additional retirement benefits. AVC's are not included in the Pension Fund Accounts in accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009.

During 2011/12 £1.8m in contributions were paid to Prudential and at the year end the capital value of all AVC's was £13.5m.

## 25. Policy Statements

The Fund has a number of policy statements that are available on request from Colin Pratt, Investment Manager, Leicestershire County Council, County Hall, Glenfield, Leicester. LE3 8RB (telephone 0116 3057656, email colin.pratt@leics.gov.uk). They have not been reproduced within the Accounts as, in combination, they are sizeable and it is not considered that they would add any significant value to most users of the accounts. The Statements are:

**Statement of Investment Principles (SIPs)**
**Communications Policy Statement**
**Funding Strategy Statement (FSS)**

## *26. Compliance Statement*

### *Income and other taxes*

The Fund has been able to gain either total or partial relief from local taxation on the Fund's investment income from eligible countries. The Fund is exempt from UK Capital Gains and Corporation tax.

### *Self-investment*

There has been no material employer related investment in 2011/12 or 2010/11.

### *Calculation of transfer values*

There are no discretionary benefits included in the calculation of transfer values.

### *Pension Increase*

All pension increases are made in accordance with the Pensions Increase (Review) Order 1997.

### *Changes to LGPS*

All changes to LGPS are made via the issue of Statutory Instruments by Central Government.

## 27. *Analysis of Investments*

| | At 31 March 2011 £m | % | At 31 March 2012 £m | % |
|---|---|---|---|---|
| **Fixed & Variable Interest Stocks** | | | | |
| United Kingdom: | | | | |
| - Indexed Linked | 18.6 | 0.8 | 59.2 | 2.5 |
| - Overseas Index Linked | 22.4 | 1.0 | 76.6 | 3.3 |
| - Overseas Government Bonds | 0.0 | 0.0 | 26.0 | 1.1 |
| - Corporate Bonds | 121.6 | 5.2 | 123.1 | 5.3 |
| | **162.6** | **7.0** | **284.9** | **12.2** |
| **Equities - United Kingdom** | **652.0** | **28.2** | **526.7** | **22.5** |
| **Equities – Overseas** | | | | |
| North America | 182.4 | 7.9 | 245.0 | 10.5 |
| Europe | 230.1 | 9.9 | 212.2 | 9.1 |
| Japan | 145.2 | 6.3 | 29.3 | 1.3 |
| Pacific ex Japan | 122.4 | 5.3 | 121.4 | 5.2 |
| Emerging Markets | 55.7 | 2.4 | 143.6 | 6.1 |
| | **735.8** | **31.8** | **751.5** | **32.2** |
| **Private Equity** | **108.4** | **4.7** | **110.6** | **4.7** |
| **Hedge Funds** | **144.2** | **6.2** | **122.3** | **5.2** |
| **Targeted Return** | **122.0** | **5.3** | **124.7** | **5.4** |
| **Commodity Funds** | **53.9** | **2.3** | **72.5** | **3.1** |
| **Infrastructure Funds** | **0.0** | **0.0** | **5.1** | **0.2** |
| **Property** | | | | |
| United Kingdom: | | | | |
| - Retail | 34.6 | 1.5 | 29.2 | 1.3 |
| - Offices | 20.4 | 0.9 | 14.1 | 0.6 |
| - Industrial | 13.2 | 0.6 | 12.9 | 0.6 |
| - Hotel | 5.0 | 0.2 | 8.7 | 0.4 |
| - Agriculture | 1.0 | 0.0 | 1.0 | 0.0 |
| Indirect | 193.6 | 8.4 | 197.1 | 8.4 |
| | **267.8** | **11.6** | **263.0** | **11.3** |
| **Cash and Currency** | | | | |
| Cash and deposits | 66.2 | 2.9 | 56.9 | 2.5 |
| Foreign exchange derivatives | (8.1) | (0.4) | 2.9 | 0.1 |
| Other derivatives contracts | 2.4 | 0.1 | 1.2 | 0.0 |
| Other Net Assets (Liabilities) | 7.0 | 0.3 | 14.2 | 0.6 |
| | **67.5** | **2.9** | **75.2** | **3.2** |
| **Total** | **2,314.2** | **100.0** | **2,336.5** | **100.0** |

## 28. Pension Fund Accounts Reporting Requirement

### *A. Introduction*

CIPFA's Code of Practice on Local Authority Accounting 2011/12 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the Leicestershire County Council Pension Fund, which is in the remainder of this note.

### *B. Balance sheet*

| Year ended | 31 March 2012 £m | 31 March 2011 £m |
|---|---|---|
| Present value of Promised Retirement Benefits | 3,452 | 3,073 |

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2012 comprises £1,933m in respect of employee members, £488m in respect of deferred pensioners and £1,031m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

## C. Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2012 is to increase the actuarial present value by £108m.

## D. Financial assumptions

| Year ended | 31 March 2012 % p.a. | 31 March 2011 % p.a. |
|---|---|---|
| Inflation/Pensions Increase Rate | 2.5% | 2.8% |
| Salary Increase Rate | 4.8%* | 5.1%** |
| Discount Rate | 4.8% | 5.5% |

My recommended financial assumptions are summarised below:

*Salary increases are 1% p.a. nominal for the three years to 31 March 2015 reverting to the long term rate thereafter

**Salary increases are 1% p.a. nominal for the period to 31 March 2013, reverting to the long term rate thereafter

## E. Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements from 2007 in line with Medium Cohort and a 1% p.a. underpin. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

| | Males | Females |
|---|---|---|
| Current Pensioners | 20.9 years | 23.3 years |
| Future Pensioners* | 23.3 years | 25.6 years |

*Future pensioners are assumed to be currently aged 45

This assumption is the same as at 31 March 2011.

## F. Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash 2008 service.

## G. Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2012 for IAS19 purposes' dated 25 April 2012. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Barry McKay

Prepared by:-

Barry McKay FFA

1 June 2012

For and on behalf of Hymans Robertson LLP

# Audit Opinion

### *Independent auditors' report to the Members of Leicestershire County Council*

We have audited the statement of accounts of Leicestershire County Council for the year ended 31 March 2012 which comprises the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet as at the end of the period, the Cash Flow Statement, the accounting policies and the related notes. The financial reporting framework that has been applied in its preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 supported by the CIPFA Service Reporting Code of Practice 2011/12.

### Respective responsibilities of the Responsible Financial Officer and auditors

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Responsible Financial Officer is responsible for the preparation of the statement of accounts and for being satisfied that it gives a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12. Our responsibility is to audit and express an opinion on the statement of accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Authority's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### *Scope of the audit of the statement of accounts*

An audit involves obtaining evidence about the amounts and disclosures in the statement of accounts sufficient to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the statement of accounts. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited statement of accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### *Opinion on statement of accounts*

In our opinion the statement of accounts:

- gives a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice 2011/12, of the state of the Authority's affairs as at 31 March 2012 and of the Authority's income and expenditure and cash flows for the year then ended; and

- has been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12.

### *Opinion on other matter*

In our opinion, the information given in the explanatory foreword for the financial year for which the statement of accounts is prepared is consistent with the statement of accounts.

### *Matters on which we are required to report by exception*

We have nothing to report in respect of the Annual Governance Statement on which the Code of Audit Practice issued by the Audit Commission requires us to report to you if, in our opinion, the Statement does not comply with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Richard Bacon

Richard Bacon
For and on behalf of PricewaterhouseCoopers LLP
Appointed Auditors
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Date: 28 September 2012

### *Opinion on the pension fund accounts*

We have audited the pension fund accounting statements for the year ended 31 March 2012 which comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### *Respective responsibilities of the Responsible Financial Officer and auditors*

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Responsible Financial Officer is responsible for the preparation of the pension fund accounting statements and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12. Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for Leicestershire County Council's members as a body in accordance with the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### *Scope of the audit of the pension fund accounts*

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the financial statements.

### Opinion on the pension fund accounting statements

In our opinion the pension fund's accounting statements:

- give a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, of the financial transactions of the Pension Fund during the year ended 31 March 2012, and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### *Opinion on other matter*

In our opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Richard Bacon

Richard Bacon
For and on behalf of PricewaterhouseCoopers LLP
Appointed Auditors
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Date: 28 September 2012

## Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

### *Authority's responsibilities*

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### *Auditors' responsibilities*

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### *Scope of the review of the arrangements for securing economy, efficiency and effectiveness in the use of resources*

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### *Conclusion*

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, we are satisfied that, in all significant respects, Leicestershire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

### *Certificate*

The audit cannot be concluded and an audit certificate issued in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission because:

- we have not yet completed our assurance work on the Council's Whole of Government Accounts return for the financial year. We are satisfied that this work does not have a material effect on the financial statements; and
- we are required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of the Leicestershire Pension Fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2012. As the Authority has not yet prepared the Annual Report we have not yet been able to read the other information to be published with those financial statements and we have not issued our report on those financial statements. Until we have done so, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Richard Bacon

Richard Bacon
For and on behalf of PricewaterhouseCoopers LLP
Appointed Auditors
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Date: 28 September 2012

(a) The maintenance and integrity of the Leicestershire County Council website is the responsibility of the council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the statement of accounts since it was initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Annual Governance Statement 2011/12

## 1. SCOPE OF RESPONSIBILITY

Leicestershire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Leicestershire County Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

Leicestershire County Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government.* A copy of the code is on our website-Code of Corporate Governance and this statement explains how Leicestershire County Council has complied with the code.

## 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, and culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the County Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Leicestershire County Council for the year ended 31 March 2012 and up to the date of approval of the annual report and statement of accounts.

## THE GOVERNANCE FRAMEWORK

### Purpose, Vision and Performance Management

The County Council has a leading role in Leicestershire Together (LT) the Local Strategic Partnership for Leicestershire, and has developed with partners a Sustainable Community Strategy (SCS) for the area. The SCS sets out the main priority outcomes being pursued and promotes the partnership vision for securing the future wellbeing of local people. The LT Board oversees SCS delivery and progress on outcomes and encourages and supports partners to work together to improve services, and tackle delivery problems. The LT Executive Board manages and coordinates delivery at a more detailed level. In Leicestershire, five Commissioning Boards together with a range of supporting groups have now been established to manage the design, commissioning and delivery of joined up activity to ensure achievement of the outcomes in the most cost-effective manner.

The County Council has an agreed Medium Term Delivery Plan (MTDP) that identifies a range of other outcomes that were identified as priorities for the Council to 2013. This is supplemented by a wide range of other service strategies and plans which communicate what the Authority is doing to make a positive difference to the lives of Leicestershire's people and the communities it serves.

The County Council's strategic approach to ensuring economy, effectiveness and efficiency is promoted through its approved Medium Term Financial Strategy (MTFS). This strategy provides the holistic resource framework to ensure that Leicestershire County Council has robust medium term business and budget plans.

The SCS, MTDP and MTFS are available on the Council's website.

The County Council has an established Performance Management approach supported by a newly centralised Performance Management Service to ensure consistency and best practice across all departments. This approach requires each department to produce an annual service plan, setting out their objectives and targets in relation to the Council's priority outcomes. Progress against these plans and targets is reported to residents through the Council's Annual Report and the Adult Social Care Local Account, which also sets out improvements in performance and service standards. Progress on the delivery of the Sustainable Community Strategy is available on the Leicestershire Together Website.

Performance progress reports and improvement plans are also presented to the Budget and Performance Monitoring Scrutiny Panel which receives quarterly reports on the revenue budget, capital programme and performance in relation to targets and commitments contained in the MTDP and MTFS. Other performance information is made available to the public through the Annual Statement of Accounts, Leicestershire Matters, the Council's website, quarterly performance dashboards, data transparency section of the website and the Annual Performance Report. The new commissioning arrangements and centralised performance management service, alongside the research and customer insight team ensure availability of high quality intelligence on resident satisfaction and performance.

### Roles and Responsibilities

To ensure effective leadership throughout the authority, members and officers work together to deliver a common purpose with clearly defined functions and roles through the following:

- The County Council's Constitution includes details of the role and responsibilities of the Executive, Committees, the full Council and Chief Officers and the rules under which they operate.

- The Constitution is subject to annual review and is revised as necessary during the intervening period.

- The Council's political structure and roles and responsibilities of Cabinet members are detailed on the Council's website and the Leader of the Council sets specific job descriptions and targets for Cabinet Lead and Support Members.

- The County Solicitor is the designated Monitoring Officer with responsibility for ensuring the lawfulness of decisions taken by the Council, Cabinet, its Committees and officers, providing support and advice on the maintenance of ethical standards and advising the Council's Standards Committee.

The Council's financial arrangements fully conform to the governance requirements of the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).* As Chief Financial Officer (CFO), the Director of Corporate Resources is a key member of the Corporate Management Team and is responsible for the proper administration of the Council's financial arrangements and leads a fully resourced and suitably qualified Strategic Finance Function. The CFO is actively involved in and able to bring influence to bear on all material business decisions to ensure immediate and long term implications, opportunities and risks, are fully considered and in alignment with the MTFS.

The Council's internal audit arrangements conform to the governance requirements of the *CIPFA Statement on the Role of the Head of Internal Audit in Local Government.* The Head of Internal Audit Service (HoIAS) works with key members of the Corporate Management Team to give advice and promote good governance throughout the organisation. The HoIAS leads and directs the Internal Audit Service so that it makes a full contribution to and meets the needs of the Authority and external stakeholders, escalating any concerns and giving assurance on the County Council's control environment,

**Staff and Members**

The success of County Council services relies substantially on the contribution of staff to the planning, development and delivery of services. The County Council recognises that the value of staff contributions will be enhanced through: clear communication of the Council's expectations; nurturing and developing staff skills and abilities; encouraging, celebrating and rewarding achievements; providing a safe, healthy, supportive and inclusive working environment and by treating all people fairly and with respect.

The Council's People Strategy priorities have been established to promote an organisational culture that delivers excellent services. Engagement of the workforce is a key strand of the People Strategy and the Council uses various well established means of communicating and consulting with staff to ensure understanding, to secure commitment in terms of delivering services and managing change. The County Council has achieved the highest level of the Equality Framework for Local Government – 'Excellent', providing evidence that it is strong in relation to its leadership of, and commitment to, the equalities agenda and that partnership working is achieving positive outcomes for the people of Leicestershire.

The County Council's has an embedded Learning and Development Structure providing a single co-located service that is modern, efficient and closely aligned to the business. Within this strategy, every employee receives a six monthly and annual personal development review. The Council has implemented the 'Leicestershire Manager' which sets out the expectations of all managers and which is underpinned by a competency framework, as well as continuing to deliver a leadership programme for its managers to ensure they have the behaviours, skills and knowledge to be transformational leaders shaping and influencing the new agenda, with a focus upon 'Leading for High Performance'. There are various programmes of support through the Learning and Development Service which ensure that staff are equipped with the right skills and knowledge to be able to do their jobs, but also to continuously develop as a workforce in Leicestershire.

The standard of conduct expected from Council employees is set out in an Employee Code of Conduct and the County Council's Organisational Values underpin all aspects of this Code and describe the attitudes and attributes expected of all Leicestershire employees. The values embedded in the Code of Conduct define the standards of behaviour for all members and staff. The County Council also has programmes in place to remind officers of the importance of maintaining strong ethical governance. The system of internal financial control is based on a framework of regular management information, financial procedure rules and standard financial instructions, contract procedure rules, administration arrangements (including segregation of duties), management supervision and a system of delegation and accountability. During 2011/12 this has involved communication on the implications on the Bribery Act 2010 as well as general fraud awareness training.

The Council has a Member Learning and Development Strategy. This covers the induction of members, the identification of development needs of members through annual reviews and creation of personal development plans.

The importance of a strong ethical framework and culture has always been recognised by the County Council with the first adopted Code of Conduct for Members in March 2002, which was revised in September 2007 in accordance with statutory requirements. Arrangements are made for all members to sign a declaration on acceptance of office which includes an undertaking to follow the Code of Conduct when they took up office following the Council elections in July 2009. To underline the Council's commitment to upholding high standards of behaviour, sanctions have been applied where members have been found to have breached the Code, which have included suspension and removal of allowances.

The Council's scheme of members' allowances is kept under review by an Independent Remuneration Panel and the Council has always adopted the recommendations put forward by this Panel about the number and level of allowances payable by the Council. Reports of this Panel are public and the County Council publicises both recommendations of the Panel and the Council's subsequent decision in accordance with Members' Allowance Regulations together with details of allowances received by every member. Declarations of personal and prejudicial interests by elected members are recorded in minutes of meetings which are available on the Council's website.

Both members (published on Council's website) and staff are required to make declarations of interests and registering of gifts and hospitality. The Corporate Governance and Standards Committees both have a role in ensuring that systems and processes within the Council conform to ethical standards.

The Council actively recognises the necessity of compliance with relevant laws, regulations, internal policies and procedures and democratic services staff monitor reports to ensure propriety of decision making and that legal advice is included where necessary and appropriate. Lawyers are involved in policy development, major projects, programme boards and Scrutiny processes. The Council has an embedded Whistleblowing Policy and Procedures which encourage members, staff and contractors to report any instances of suspected unlawful conduct. The Policy and Procedures are published on the Council's website and intranet and ensure that whistleblowers receive a response to their concerns and provide reassurance that they will be protected from reprisal. Any concerns raised are recorded by the Monitoring Officer, who also ensures that the Whistleblowing Policy and Procedures are regularly reviewed and communicated to all.

**Communication and Consultation**

The County Council consults with stakeholders in all areas of its business. Different forums and frameworks exist for consultation on different policies and service areas. The Council has ensured that clear channels of communication are in place with all sections of the community and other stakeholders through: Community Forums (which include neighbourhood and area forums), the Leicestershire Together Forum, Community Cohesion, Leicestershire Together Engagement Framework, Parish Plans, Consultation Standards, Leicestershire Matters, Satisfaction Surveys and road shows presented by the Corporate Management Team. The 'Have Your Say' section of the Council's website contains information regarding the various ways in which the Council consults stakeholders. Trade Unions are also consulted on issues which affect council employees. All meeting agendas and reports for consideration by members are published on the Council's website in advance of meetings and are held in public,

The County Council has a Corporate Complaints Policy and Procedures which are in line with Ombudsman guidelines and good practice, and is available on the Council's website. A centrally managed approach has introduced more consistency, improved the monitoring of complaints from receipt, through investigations and response, and on to the implementation of lessons learnt. Information on complaint investigations and outcomes are provided to the Corporate Management Team as part of regular performance reports.

Leicestershire County Council already makes available a large amount of information through several means, but is also committed to meetings its obligations to give rights of public access to information held by local authorities, through the Freedom of Information Act 2000 and the Environmental Information Regulations 2004. This legislation helps the Council to create a climate of openness and dialogue with all its stakeholders, which in turn will help to increase public confidence in the way that the Council is operating.

**Partnership Working**

Leicestershire County Council is a high performing Council, but it must continue to evolve in order to meet increasing public expectations as well as national challenges. The Local Government landscape has changed and to help to maintain our good reputation for consistently delivering high quality services, the Council has developed an ambitious programme of change that will ensure we continue to deliver services that are cost effective and targeted to the public's needs. An assessment of the current challenges facing the Council together with best practice design principles have been used to define a model for the organisation which is being delivered through the Strategic Change programme.

Reviews of existing structures and processes are a key part of this and have included action plans in various service areas as well as a review of staff terms and conditions. Other achievements have included completion of phases on the office accommodation strategy implementation and establishment of departmental efficiency programmes. Challenging Government public spending targets mean that the Council has to deliver large efficiency savings. The Organisational Efficiency programme supports the achievement of these challenging targets through the delivery of efficiency projects that will enable sustainable long term improvements in the delivery of key internal and external services. During 2011/12 the Council continued work with Nottingham City Council to create East Midlands Shared Services (EMSS), an innovative platform that will enable both authorities to share functions such as transactional HR, Payroll and Finance services. The development will be underpinned by Leicestershire's Oracle ERP solution and is planned to 'go live' in autumn 2012. The Target Operating Model will also enable other public sector agencies to join the development.

Leicestershire's Local Strategic Partnership, Leicestershire Together is led by a Board in accordance with its Standing Orders and is underpinned by a Partnership Agreement. The thematic partnerships, which come under the umbrella of Leicestershire Together, each have their own governance arrangements, proportionate to the significance of the individual partnership.

The County Council is also involved in other partnership working with a wide range of organisations and has compiled a partnership register to record all of the joint working in which it is involved. Other partnership working is governed by agreements, protocols or memoranda of understanding relevant to the type of work or relationship. The County Council recognises the increasing need of and complexities of joint/partnership working and therefore aims to ensure that all existing and future partnerships are assessed regularly to identify new risks and ensure compliance with appropriate governance standards for partnerships.

Leicestershire County Council accepts that the programme of policy and legislative change that has emerged from Government which has led to considerable changes in the Council's range of responsibilities and the ways in which the Council is expected to take these forward. To this effect, the Authority continues working with other public agencies across Leicester and Leicestershire to identify improved, more efficient ways of providing public services, including the design, redesign and commissioning of services. Examples include partnership work on access to services, drugs and alcohol, physical activity and troubled families.

## 3. REVIEW OF EFFECTIVENESS

Leicestershire County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit Service's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The County Council has an effective system of internal control which includes:

- Providing an effective internal audit service
- Effective risk management arrangements
- Overview & Scrutiny Committees
- An established Corporate Governance Committee
- A Code of Corporate Governance
- Standing Financial Instructions and Contract Procedure Rules
- Scheme of delegation
- Ensuring compliance with relevant laws and regulations

The process that has been applied in maintaining and reviewing the effectiveness of the Governance Framework during 2011/12 includes the following:

- An established Corporate Governance Committee that agrees the annual audit plan, receives and considers reports on: risk management and the Corporate Risk Register; internal audit; the Annual Governance Statement; external audit and inspection plans; results of external audit work; the effectiveness of systems of internal audit; progress reports on internal audit work; anti fraud and corruption initiatives and treasury management.

- The Corporate Management Team receives quarterly reports on the County Council's Organisational Governance and Performance Framework. The reports include information relating to: audit and risk management; procurement; standards; information issues; freedom of information; employee related information and complaints.

- The Chief Executive has a duty to monitor and review the operation of the Constitution and the Monitoring Officer (County Solicitor) has a duty to report to Cabinet on matters which could be considered as unlawful or give rise to maladministration. As part of this process the Monitoring Officer ensures an annual assessment of the Authority's compliance with the Code of Corporate Governance is undertaken.

- The Chief Executive conducted a limited annual review of the Constitution in 2011. By necessity part of the review needed to be delayed to take into account legislation before Parliament and particularly the Localism Act.

- A standing panel on Budget and Performance Monitoring has been established, along with a number of small, time-limited scrutiny review panels which have considered and made recommendations to the Executive on topics such as Special Educational Needs and Transitions. These panels are an effective way of carrying out detailed scrutiny of particular issues.

- The Council's internal audit coverage which is planned using a risk based approach. Internal Audit Service reports provide an overall assurance assessment on the adequacy of the Council's internal control environment, with areas of weakness identified and recommendations for improvements made.

- External Audit opinion on the adequacy of the Internal Audit Service and comments on Corporate Governance and Performance Management in their Annual Audit Letter and other reports.

- An annual rating for Children and Young People's Service by Ofsted

- Annual governance assurance statements confirming the adequacy of governance arrangements in departments, signed by Directors.

- An independent review of the Council's risk management framework to assess against and bring in line with local government best practice.

A self assessment review into the effectiveness of the system of Internal Audit Service is usually undertaken annually. However, the Service is undergoing changes to both its service delivery approach and conformance to new mandatory standards; therefore the planned annual review has been deferred until these are implemented.

The Council recognises that its entire governance framework needs to be sufficiently robust to help the Council move forward successfully during these testing times.

**4. GOVERNANCE ISSUES**

This review of effectiveness has been informed by both Internal and External Audit and the conclusion of the review is that the Council's overall financial management and corporate governance arrangements during 2011/12 are sound. However, details of governance issues that require attention are set out below, including the positive steps to address them.

Two outstanding investigations into alleged breaches of the Member Code of Conduct have been resolved. Changes in legislation have resulted in the establishment of new procedures and a Member Code of Conduct Panel.

Leicestershire has a strong track record in information management and there is a comprehensive framework in place to manage and embed information governance across the organisation. Information security breaches may happen when information is lost, stolen or transferred incorrectly. An incident was reported to the Information Commissioner. Following the remedial action that has been taken by the County Council, no Enforcement Notice will be served. A Letter of Undertaking has been signed by the Chief Executive outlining actions to ensure that personal data are processed in accordance with the Seventh Data Protection Principle.

The coming year will present ongoing challenges to the County Council:
- The economic climate will continue to result in tough financial settlements and a total of £74m saving has been incorporated in the approved MTFS: £49m from efficiency savings and £25m from service reductions. The Council will continue to take appropriate action to ensure that it maintains its record of achieving a balanced budget;
- The Council need to take into account any new best practice, relevant legislation and guidance, and in particular: the Localism Act ; the adoption of a new Standards Regime; National Health Service reform; changing education landscape; Reform of Local Government Funding; Personalisation and Welfare Reform.

We propose over the coming year to take steps to address the outstanding issues to further enhance our governance arrangements.

***John Sinnott***
***Chief Executive***

***Nicholas Rushton***
***Leader of the Council***

# Glossary of Terms

### ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements.

### AGENCY

The provision of a service by an authority on behalf of another authority which is legally responsible for providing that service. The authority providing the service in the first instance is reimbursed by the responsible authority.

### AMORTISED COST

The amortised cost of a financial asset or financial liability is:

- the amount at which the asset or liability is measured at initial recognition (usually "cost")
- *minus* any repayments of principal,
- *minus* any reduction for impairment or uncollectibility, and
- *plus or minus* the cumulative amortisation of the difference between that initial amount and the maturity amount.

### CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty within 24 hours. Cash equivalents are investments of less than 3 months from acquisition that are readily convertible to known amounts of cash with insignificant risk of a change in value.

### CAPITAL RECEIPTS

Income from the sale of capital assets. Such income may only be used to repay loan debt or to finance new capital expenditure.

### CAPITAL RESERVE

An internal reserve of the Council which is used to generate monies for financing capital expenditure thus avoiding the need to borrow externally.

### COLLECTION FUND

The fund administered by each authority collecting Council Tax (district councils in shire areas). The County Council precepts on these funds to finance its net expenditure after taking into account other sources of income, e.g. Government Grants, National Non-Domestic Rate income and charges for services.

### COMPREHENSIVE INCOME & EXPENDITURE ACCOUNT

A summary of the resources generated and consumed by the authority in the year. Includes details of how the movement in net worth in the Balance Sheet is identified to the Comprehensive Income and Expenditure Account surplus/ deficit and to other unrealised gains and losses.

### CORPORATE & DEMOCRATIC CORE

Consists of costs of democratic representation and corporate management.

### CREDITORS

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

### DEBTORS
Amounts due to the Authority but unpaid at the end of the financial year.

### DEFERRED CAPITAL RECEIPTS
The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

### FAIR VALUE
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
A statement of common accounting practice, devised by the International Accounting Standards Board, which is applicable to the majority of large organisations, both public and private sector.

### FORMULA GRANT
A Government Grant allocated by the following Government formula:
- Relative Needs
- Relative Resources
- Central Allocation
- Floor Damping

### GENERAL COUNTY FUND
The main revenue fund of the County Council. Precept income, National Non-Domestic Rate income and government grants are paid into the fund, from which the cost of providing services is met.

### IMPAIRMENT
A loss in the value of a fixed asset, arising from physical damage such as a major fire or a significant reduction in market value. In addition a reduction in value where there is insufficient unrealised gains in the revaluation reserve for that asset.

### INFRASTRUCTURE
The network of roads, bridges, sewers, lighting etc.

### INTANGIBLE ASSET
Non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the Authority through custody or legal rights (e.g. purchased software licences).

### LEASING
A method of financing the acquisition of assets, notably equipment, vehicles, plant, etc. There are two forms of lease:

a) A finance lease involves payment by the lessee (the user) of the full cost of the asset together with a return on the finance provided by the lessor, usually payable over the anticipated life of the asset.

b) An operating lease involves the payment of a rental by a lessee for a period, which is normally less than the useful economic life of the asset.

***LOCAL AREA AGREEMENT (LAA)***
An agreement that sets out the priorities of a local area in certain policy fields as agreed with central government and other partners within that area, represented by local authorities and other, largely public sector bodies, within the local strategic partnership. The County Council acts as the accountable body for the LAA in Leicestershire.

***LONG TERM BORROWING***
Loans raised to finance capital spending which have still to be repaid.

***MOVEMENT IN RESERVES STATEMENT***
A reconciliation showing the movement in the year on the different reserves held by the County Council, analysed into 'usable' reserves (i.e. those that can be used to fund expenditure or reduce local taxation, and other reserves. It also shows how the balance of resources generated/ consumed in the year links in with statutory requirements for raising council tax.

***NET WORTH (NET ASSETS/LIABILITIES)***
Value by subtracting total liabilities from total assets.

***NON CURRENT ASSETS***
An asset which is not easily convertible to cash or not expected to become cash within the next year. Examples include fixed assets, leasehold improvements, long term investments and long term debtors.

***NON DISTRIBUTED COSTS***
Costs which comprise pension scheme past service costs, settlements and curtailments.

***NON-OPERATIONAL ASSETS***
Assets held by the Authority but not directly used for the provision of services, e.g. assets surplus to requirements, commercial properties, and assets under construction.

***PRECEPTS***
The income which the County Council requires from the collection funds of the district councils.

***PROVISION***
An amount set aside for any liabilities or losses of uncertain timing or amount, that have been incurred.

***PUBLIC WORKS LOAN BOARD (PWLB)***
A government body from which local authorities may raise long term loans, usually at advantageous interest rates.

***REMUNERATION***
All sums paid to an employee, including expenses, allowances, and redundancy payments chargeable to UK income tax, and the monetary value of any other benefits received other than in cash.

***REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE***
Capital expenditure incurred not resulting in an asset to the authority e.g. Grants to village halls.

### *REVENUE SUPPORT GRANT (RSG)*
Grant paid by the Government in respect of general local authority expenditure.

### *RECHARGE*
The transfer of costs from one service account to another.

### *REVENUE FUNDING OF CAPITAL*
The financing of capital expenditure by a direct contribution from revenue.

### *REVENUE*
Expenditure that the County Council incurs on the day to day running costs of its services including salaries and wages, running expenses of premises and vehicles as well as the annual payment of capital charges. The expenditure is financed from charges for services, government grants and income from Council Tax and National Non-Domestic Rates.

### *SERVICE LEVEL AGREEMENT (SLA)*
An agreement between users and providers of support services which specifies the service to be provided and the charge to be made.

### *SPECIFIC GRANTS*
Grants paid by the Government for a particular service, e.g. School Standards Grant, Supporting People.

### *TERMINATION BENEFITS*
Employee benefits payable as a result of either: (a) the County Council's decision to terminate an employee's employment before the normal retirement date; or (b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

### *TRUST FUNDS*
Funds administered by the County Council for such purposes as charities, prizes and specific projects.

### *USABLE RESERVE*
An amount set aside for purposes falling outside the definition of a provision that an Authority can apply to its provision of services, either by incurring expenses or undertaking capital investment.

### *UNUSABLE RESERVE*
An amount set aside for purposes falling outside the definition of a provision that an Authority is not able to utilise to provide services. These include reserves that hold unrealised gains and losses as well as adjustment accounts which hold income and expenditure recognised statutorily against the general fund balance on a different basis from that expected by accounting standards as adopted by the code.