**Bill Cullen** MBA (ISM), BA(Hons) MRTPI
***Chief Executive***

**Date:** **23 June 2020**

Hinckley & Bosworth
Borough Council

**To:** **Members of the Audit Committee**

Mr DS Cope (Chairman)
Ms A Pendlebury (Vice-Chairman)
Mrs MA Cook
Mr REH Flemming
Mr E Hollick
Mr MR Lay
Mr RB Roberts
Mrs H Smith
Mr BR Walker
Mr HG Williams
Mr P Williams

Copy to all other Members of the Council

(other recipients for information)

Dear member,

There will be a meeting of the **AUDIT COMMITTEE** via Zoom on **WEDNESDAY, 1 JULY 2020** at **6.30 pm** and your attendance is required.

The agenda for the meeting is set out overleaf.

Yours sincerely

RKOwen

Rebecca Owen
Democratic Services Manager

## AUDIT COMMITTEE - 1 JULY 2020

## *A G E N D A*

1. APOLOGIES AND SUBSTITUTIONS

2. MINUTES OF PREVIOUS MEETING (Pages 1 - 2)

   To confirm the minutes of the previous meeting.

3. ADDITIONAL URGENT BUSINESS BY REASON OF SPECIAL CIRCUMSTANCES

   To be advised of any additional items of business which the Chairman decides by reason of special circumstances shall be taken as matters of urgency at this meeting (to be taken at the end of the agenda)

4. DECLARATIONS OF INTEREST

   To receive verbally from members any disclosures which they are required to make in accordance with the Council's code of conduct or in pursuance of Section 106 of the Local Government Finance Act 1992. **This is in addition to the need for such disclosure to be also given when the relevant matter is reached on the agenda.**

5. QUESTIONS

   To hear any questions received in accordance with Council Procedure Rule 12.

6. 2019-20 EXTERNAL AUDIT PLANNING REPORT (Pages 3 - 42)

   Report of the external auditor.

7. AUDIT COMMITTEE DRAFT STATEMENT UPDATE (Pages 43 - 136)

   To present to the Audit Committee the draft Financial Statement 2019/20 that will be subject to external audit.

8. ANY OTHER ITEMS OF BUSINESS WHICH THE CHAIRMAN DECIDES HAVE TO BE DEALT WITH AS MATTERS OF URGENCY

   As announced under item 3 above.

HINCKLEY AND BOSWORTH BOROUGH COUNCIL

AUDIT COMMITTEE

11 MARCH 2020 AT 6.30 PM

PRESENT: Mr DS Cope - Chairman
Ms A Pendlebury – Vice-Chairman
Mrs MA Cook, Mr REH Flemming, Mr E Hollick, Mr MR Lay, Mr BR Walker and Mr P Williams

Officers in attendance: Tan Ashraf and Ashley Wilson. Gary Morris (Ernst & Young) and Andrew Smith (Grant Thornton) were also in attendance.

347 APOLOGIES AND SUBSTITUTIONS

Apologies for absence were submitted on behalf of Councillors Roberts, Smith and HG Williams.

348 MINUTES OF PREVIOUS MEETING

It was moved by Councillor Flemming, seconded by Councillor P Williams and

RESOLVED - the minutes of the meeting held on 15 January 2020 be confirmed and signed by the chairman.

349 DECLARATIONS OF INTEREST

No interests were declared at this stage.

350 EXTERNAL AUDITOR - ANNUAL LETTER AND AUDIT RESULTS REPORT

It was decided to take the external auditor's annual audit letter and annual audit results report together.

In response to a member's question the external auditor stated that the annual audit letter was a summary of the annual audit results report and there were no concerns. It was highlighted that proper procedures were in place to secure value for money. It was noted that there were adequate levels of reserves but there could be a risk in future years and this was under review.

In answer to a member's question the external auditor confirmed they would be on site in June 2020 to begin the audit.

The letter and report were noted and the chairman thanked the external auditor.

351 INTERNAL AUDIT PROGRESS REPORT

The internal audit progress report was presented to the committee. The internal auditor drew attention to the Chartered Institute of Public Finance & Accountancy's Financial Resilience Index which was updated annually and was a useful resource.

There was reassurance that a contingency plan was being put together to deal with the impact of the coronavirus.

Members noted the report.

352 PLANNING ENFORCEMENT INTERNAL AUDIT REPORT

Members were presented with the planning enforcement internal audit report which gave significant assurance with some improvement required. In response to a member's question it was noted that the auditor planned to follow up to ensure recommendations had been implemented and would report back.

It was noted that the report concluded that the department performed well with limited resources and it was highlighted that the issue of resources should be addressed.

The report was noted and the chairman thanked all attendees.

Before the meeting closed the chairman discussed arranging training sessions for members with officers across the different services to ensure the committee was maximising its effectiveness. During discussion members also highlighted service areas, including housing repairs that the internal auditor could consider.

(The Meeting closed at 7.09 pm)

CHAIRMAN

# Hinckley & Bosworth Borough Council
## Audit planning report

Year ended 31 March 2020

May 2020





Building a better working world

Private and confidential

1 May 2020

Members of the Audit Committee
Hinckley & Bosworth Borough Council
Hinckley Hub
Rugby Road
Hinckley, LE10 0FR

Dear Audit Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 20 May 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Henshaw

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/ ).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee and management of Hinckley & Bosworth Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Hinckley & Bosworth Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hinckley & Bosworth Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

# 01 Overview of our 2019/20 audit strategy

# Overview of our 2019/20 audit strategy

**The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.**

**Audit risks and areas of focus**

| Risk / area of focus | Risk identified | Change from PY | Details |
|---|---|---|---|
| Misstatements due to fraud or error | Fraud risk | No change in risk or focus | As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. |
| Risk of fraud in revenue and expenditure recognition: Inappropriate capitalisation of expenditure | Fraud risk | No change in risk of focus | Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have re-evaluated the perceived fraud risks and consider that this risk is more prevalent over the medium term and is likely to occur through the capitalisation of expenditure that should be accounted for in the Comprehensive Income and Expenditure Statement (CIES). |
| Valuation and impairment of Property, Plant and Equipment (PPE) | Significant risk | Increased risk | The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Due to the impact of Covid 19, there is greater uncertainty around the valuation of properties which have future yields present within the calculation methodology. |
| Pensions liability valuations | Higher Inherent Risk | No change in risk or focus | The Council's pension fund deficit is a material estimated balance. At 31 March 2019 this totalled £43.4 million. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. |
| NNDR Appeals Provision | Higher Inherent Risk | Increased risk | The Council calculates an NNDR (business rates) appeals provision in relation to appeals made by businesses which believe that the NNDR that they have paid in previous years was inflated due to an unreasonably high RV (Rateable value). The calculation involves a significant amount of estimation uncertainty and typically includes the use of an expert. As such, the value of the NNDR appeals provision is identified as an area which has an increased risk of material misstatement. |

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# Overview of our 2019/20 audit strategy

## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Hinckley & Bosworth Borough Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.



By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

## Audit team changes

Key changes to our team.

**Engagement Partner - Helen Henshaw**
Helen has over twenty years of audit experience working for EY with significant experience across both the public and private sector.

# Overview of our 2019/20 audit strategy

## Materiality

**Planning materiality**
**£1.1m**

Materiality has been set at £1.1m, which represents 2% of the prior years gross expenditure on provision of services (which is the gross expenditure on net cost of services plus other operating expenditure and financing expenditure).

**Performance materiality**
**£828k**

Performance materiality has been set at £828k, which represents 75% of materiality.

**Audit differences**
**£55k**

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and collection fund) greater than £55k. This figure is calculated based on 5% of planning materiality. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.



## Audit Timetable

Janet Dawson, the UK Government and Public-Sector Assurance Leader for Ernst & Young LLP wrote to all Chief Financial Officers and Audit Committee Chairs for PSAA audited bodies in February 2020 setting out our views on the sustainability of UK local public audit.

At the end of January 2020, 85 organisations had not yet received their audit opinion on the 2018-2019 financial statements. The factors that have led to this unprecedented position are extensive, impact all audit suppliers in the PSAA contract and need to be considered by public sector finance professionals and Audit Committees. In summary, the types of issues and challenges we have seen include:

- Financial reporting and decision making in local government has become increasingly complex.
- Some local authorities have a shortage of financial reporting skills, capabilities and weaknesses in audit readiness (including keeping pace with technological advancement in data management and processing for audit).
- There has been a significant increase in the specialised skills, time and cost required by auditors to address regulatory expectations.
- Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff.

To ensure we deliver the best quality audits, the PSAA, NAO and Local Public Audit Stakeholder forum were informed that we would be scheduling a number of 2019/20 external audits for completion after the 31st July 2020 publication deadline. The Hinckley audit was scheduled to commence 1 June 2020.

In light of the COVID-19 pandemic, changes to the reporting timetables for local authority annual accounts have recently been released, pushing delivery deadlines back. Management have communicated to us that they will not be in a position to produce draft financial statements by 31 May 2020 as originally planned, so the audit will need to be pushed back. We will work with management to agree a revised audit delivery timetable, noting that the publication deadline for audited accounts is now 31 November 2020.



# 02 Audit risks

# Our response to significant risks

**We have obtained an understanding of your strategy, reviewed your principal risks and combined it with our understanding of the sector to identify key risks that impact our audit. We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.**

## Misstatements due to fraud or error*



**What is the risk?**

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

**What will we do?**

In order to address this risk we will carry out a range of procedures including:

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including:
    - testing of journal entries and other adjustments in the preparation of the financial statements;
    - assessing accounting estimates for evidence of management bias; and
    - evaluating the business rationale for significant unusual transactions.

# Our response to significant risks (continued)

## Risk of fraud in revenue and expenditure recognition – Inappropriate capitalisation of expenditure*

### Financial statement impact

Misstatements that occur in relation to the inappropriate capitalisation of expenditure could affect the expenditure accounts.

We consider the risk applies to capitalisation of revenue expenditure and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement

### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

As the Council is more focussed on its financial position over the medium term we do not consider there to be a heightened risk for the Council's standard income and expenditure streams except for the capitalisation of expenditure on Property, Plant and Equipment (PPE) given the extent of the Council's capital programme.

### What will we do?

In order to address this risk we will carry out a range of procedures including:

- Reviewing the appropriateness of expenditure recognition and capitalisation accounting policies;
- Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statement, specifically those that move expenditure to PPE balance sheet general ledger codes; and
- Performing sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised.

# Our response to significant risks (continued)

## Valuation and impairment of Property, Plant and Equipment

### Financial statement impact

Misstatements that occur in relation to the risk of valuation of the Land and Buildings affect multiple balances and disclosures throughout the financial statements. Land and Buildings had a valuation of £50.2 million and Council Dwellings £176.4m 2018/19,

.

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### What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the entity's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The Authority will engage an external expert valuer who will apply a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment. As the Authority's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/ overstated. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Many of the property valuations involve future yields within the calculation. Due to the impact of Covid 19 there is greater uncertainty around the future yields obtainable in relation to properties. As a result, we recognise a significant risk due to enhanced levels of uncertainty in the valuation calculations.

### What will we do?

We will:

- Consider the work performed by the external valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation;
- Test accounting entries have been correctly processed in the financial statements; and
- Engage EY Real Estates team to perform a review of the valuer's estimation methods and to review the valuation of a sample of assets.

# Other areas of higher inherent risk

**We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.**

| What is the risk/area of focus? | What will we do? |
|---|---|
| **Pension Liability Valuation**<br><br>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Leicestershire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet.<br><br>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. | We will:<br><br>▶ Liaise with the auditors of Leicestershire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council;<br><br>▶ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and<br><br>▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. |
| **NNDR Appeals Provision**<br><br>The Council calculates an NNDR (business rates) appeals provision in relation to appeals made by businesses which believe that the NNDR that they have paid in previous years was inflated due to an unreasonably high RV (Rateable value). The calculation involves a significant amount of estimation uncertainty and typically includes the use of an expert. As such, the value of the NNDR appeals provision is identified as an area which has an increased risk of material misstatement. | We will:<br><br>▶ Review the methodology behind the calculation for the NNDR appeals provision, testing the assumptions used and the calculations applied.<br><br>▶ Assess the data used in the calculation – agreeing the values and attesting the completeness of appeals by agreeing to third party source information<br><br>▶ Enquire of management's specialist – obtain an understanding of their input into their process, their qualifications and expertise. Critically evaluate the work performed. |

# Other areas of focus

**What is the risk/area of focus?**

Impact of Covid-19

The ongoing disruption to daily life and the economy as a result of the Covid-19 virus will have a pervasive impact upon the financial statements. Understandably, the priority for the Council to date has been to ensure the safety of staff and the delivery of business critical activities. However, the financial statements will need to reflect the impact of Covid-19 on the Council's financial position and performance. Due to the significant uncertainty about the duration and extent of disruption, at this stage we have not identified specific risks related to Covid-19, but wish to highlight the wide range of ways in which it could impact the financial statements. These may include, but not be limited to:

- Going concern – management's assessment of whether the Council is a going concern will need to consider the impact of the current conditions on the Council's future performance. Additional narrative disclosure will be required, including on the future principal risks and uncertainties, including the impact on operations for 2020/21 and beyond.
- Revenue recognition – there may be an impact on income collection (Council and Business rates) if businesses and residents are unable to work and earn income due to the lockdown and restriction of movement due to COVID-19.
- Tangible assets – there may be impairment of tangible assets if future service potential is reduced by the economic impact of the virus. The Council may also have already incurred capital costs on projects where the economic case has fundamentally changed.
- Pensions – volatility in the financial markets is likely to have a significant impact on pension assets, and therefore net liabilities.
- Receivables – there may be an increase in amounts written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and residents unable to meet their financial obligations.
- Holiday and sickness pay – the change in working patterns may result in year-end staff pay accruals which are noticeably different to prior years.
- Government support – any Covid-19 specific government support is likely to be a new transaction stream and may require development of new accounting policies and treatments.
- Annual Governance Statement– the widespread use of home working is likely to change the way internal controls operate. The Annual Governance Statement will need to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on the ability to complete the remainder of the internal audit programme.

We will provide an update on the impact of Covid-19 on the Council's financial statements, and how we have responded to the additional risks of misstatement, later in our audit.

In addition to the impact on the financial statements themselves, the disruption caused by Covid-19 may impact on management's ability to produce the financial statements and our ability to complete the audit to the planned timetable. For example, it may be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted above.

# Audit risks

## Other matters

**What is the risk/area of focus?**

<u>IFRS16 – leases</u>

IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as "pay as you go" arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

Implementation of IFRS 16 was to be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. In July 2019 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'.

This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including:

- the identification of leases
- the recognition of right-of-use assets and liabilities and their subsequent measurement
- treatment of gains and losses
- derecognition and presentation and disclosure in the financial statements,
- the management of leases within the Prudential Framework.

The guidance also covers the transitional arrangements for moving to these new requirements, such as:

- the recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees
- the mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes).

**What will we do?**

IFRS 16 – leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases.

The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet.

Given the COVID-19 pandemic, CIPFA/LASAAC have recently communicated a deferral of the implementation date to 1 April 2021.

Although the new standard will not be included in the CIPFA Code of Practice until 2021/22, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2021.

In particular, full compliance with the revised standard for 2021/22 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2021 in order to identify:

- all leases which need to be accounted for
- the costs and lease term which apply to the lease
- the value of the asset and liability to be recognised as at 1 April 2021 where a lease has previously been accounted for as an operating lease.

As part of our planning procedures we had already begun discussing progress made in preparing for the implementation of IFRS 16 – leases with the finance team, and will continue to do so until implementation.

# Other matters

| What is the area of focus? | What will we do? |
|---|---|
| **Going Concern Compliance with ISA 570**<br><br>This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.<br><br>The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.<br><br>The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.'<br><br>'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.' | The revised standard requires:<br><br>▸ auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;<br>▸ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Council obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;<br>▸ improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the Council are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements;<br>▸ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and<br>▸ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.<br><br>The revised standard extends requirements to report to regulators where we have concerns about going concern.<br><br>We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21. |

# 03 Value for Money Risks

# Value for Money

## Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

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

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

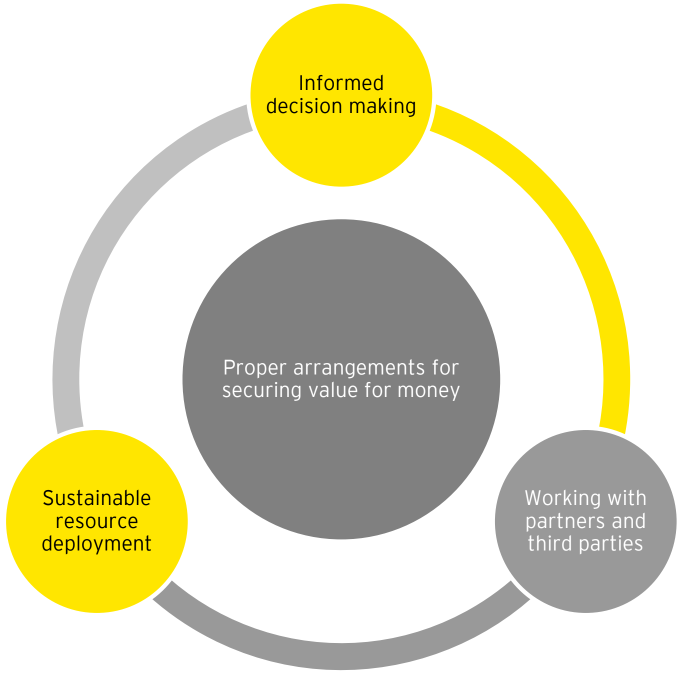
We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.  We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level.  In 2018/19 this has included consideration of the steps taken by the Council to consider the sustainable resource deployment in order to make the most of it's resources considering the gap between expenditure and funding.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risks noted on the following page which we view as relevant to our value for money conclusion.





# Value for Money Risks

| What is the significant value for money risk? | What arrangements does the risk affect? | What will we do? |
| --- | --- | --- |
| **Securing financial resilience**<br><br>In common with other Local Government entities, the Authority is facing significant financial pressures in the medium term.<br><br>The Authority is forecast to have a General Fund Balance of £1.65m at 31/03/2020.<br><br>The Medium Term Financial Strategy (MTFS) forecasts deficits over the next three years which would leave the Authority with adequate reserves at the end of the 2022/23 period. However, the sensitivity analysis within the MTFS shows that with reductions in income due to the phasing out of the New Homes Bonus and the resetting of the NNDR baseline would provide budget deficits as follows:<br><br>• 2020/21 - £123k<br>• 2021/22 - -£46k (surplus)<br>• 2022/23 - £326k<br><br>This decreases the General Fund Reserve to £1.25m by the end of the 2022/23 period, which is below the level of £1.63m considered acceptable by the Authority going into 2022/23.<br><br>Given the uncertainty of the funding settlement post 2020/21 and the financial pressures set out above, we have considered this to be a significant area of focus in forming our value for money conclusion. | **Deploy resources in a sustainable manner.**<br><br>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions | We plan to review:<br><br>▸ the MTFS including the adequacy of any major assumptions;<br>▸ how the organisation has monitored progress of strategic delivery plans;<br>▸ how the Authority has considered the impact of the Local Government settlement on the MTFS;<br>▸ the adequacy of plans that have been developed to identify future savings and the level of reported savings delivered in year. |

# 04 Audit materiality

# Materiality

## Materiality

For planning purposes, materiality for 2019/20 has been set at £1.1m. This represents 2% of the Council's prior year gross expenditure on provision of services (which is the gross expenditure on net cost of services plus other operating expenditure and financing expenditure). It will be reassessed throughout the audit process. In an audit of a public sector entity, we consider gross expenditure to be the appropriate basis for setting materiality as it is the benchmark for public sector programme activities. We have provided supplemental information about audit materiality in Appendix C.

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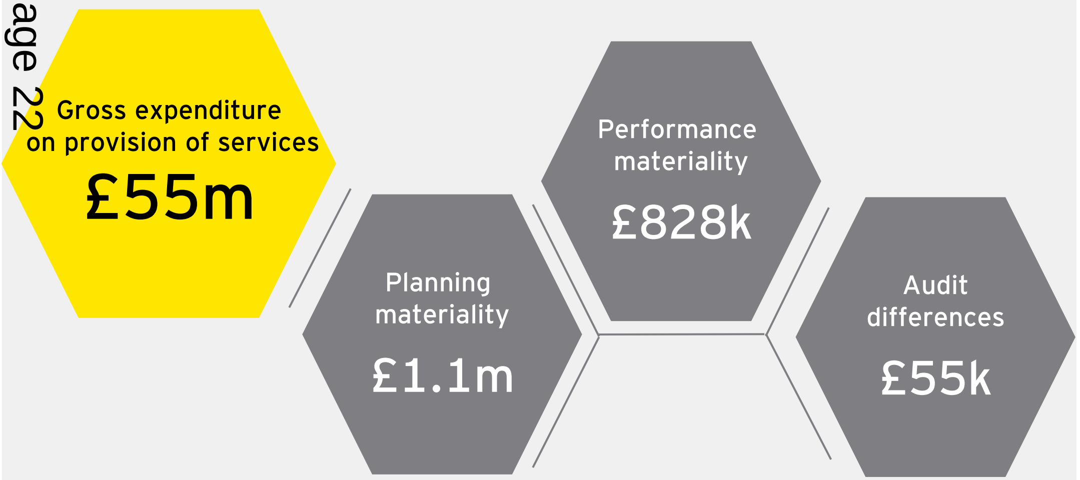



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

## Key definitions

**Planning materiality –** the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality –** the amount we use to determine the extent of our audit procedures. We have set performance materiality at £828k which represents 75% of planning materiality. We have considered a number of factors such as the value and nature of misstatements identified in the prior year and any significant changes in 2019/20 when determining the percentage of planning materiality.

**Audit difference threshold –** we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income. This figure is calculated based on 5% of planning materiality.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

**Specific materiality** – We have set a materiality for remuneration disclosures, related party transactions and councillor allowances. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are free from material misstatement.

# 05 Scope of our audit

# Scope of our audit

## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

**Procedures required by standards**

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

**Procedures required by the Code**

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

**2. Arrangements for securing economy, efficiency and effectiveness (value for money)**

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

# Our Audit Process and Strategy (continued)

## Audit Process Overview

**Our audit involves:**

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

**Analytics:**

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

**Internal audit:**

We will liaise with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

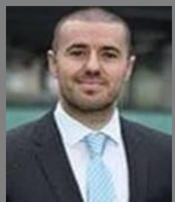
# 06 Audit team

# Audit team and use of specialists

## Audit team structure:

There is one new addition to the audit team this year. The engagement team is led by Helen Henshaw, Associate Partner, supported by Gary Morris, Assistant Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the finance team. Both work within our dedicated Government and Public Sector team and have significant experience on council audits.

Helen Henshaw
Associate Partner



Gary Morris
Assistant Manager

Audit team

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## Use of specialists:

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

| Area | Specialists |
|---|---|
| Pensions disclosure | EY Actuaries |
| Valuation of Land and Buildings | EY Valuations Team |

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

# 07 Audit timeline

# Audit timeline

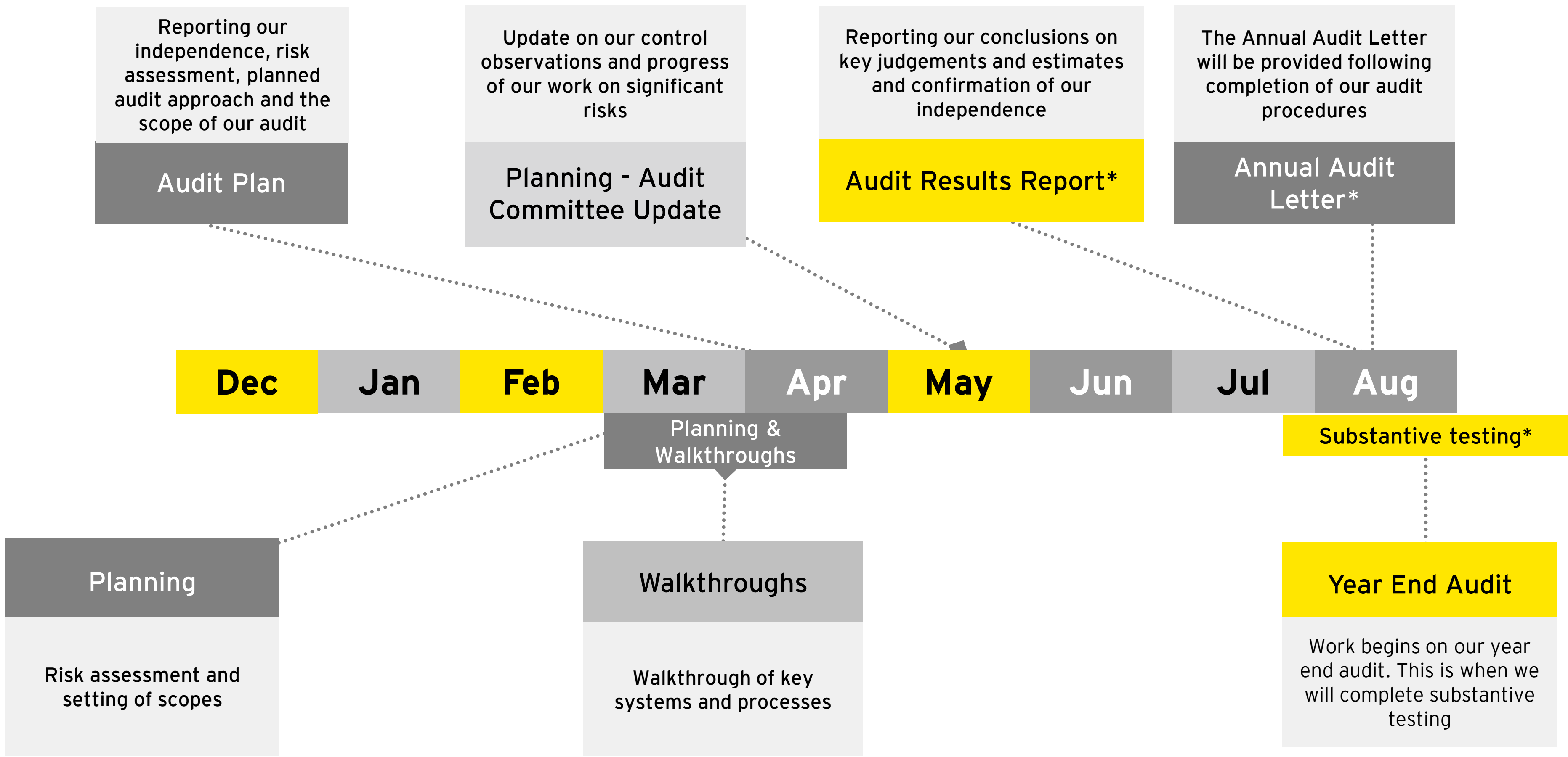
## Timetable of communication and deliverables

**Timeline**

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.






* Final timings to be revised in light of C-19 (refer page 7) and agreed with management and the Committee.

# 08 Independence

# Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

| Required communications | |
|---|---|
| **Planning stage** | **Final stage** |
| ▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;<br>▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;<br>▸ The overall assessment of threats and safeguards;<br>▸ Information about the general policies and process within EY to maintain objectivity and independence.<br>▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation] | ▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;<br>▸ Details of non-audit services provided and the fees charged in relation thereto;<br>▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;<br>▸ Written confirmation that all covered persons are independent;<br>▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;<br>▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and<br>▸ An opportunity to discuss auditor independence issues. |

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

# Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Helen Henshaw, your audit engagement partner and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 0.27:1. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work. There are no management threats at the date of this report.

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

## Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. The table below sets out the self review threats that exist as the date of this report.

| Description of service | Related independence threat | Period provided/ duration | Safeguards adopted and reasons considered to be effective |
|---|---|---|---|
| Housing benefit work no longer forms part of the work required by PSAA and we are separately engaging with the Council on the appointment for this work in 2019/20. Our fees have not yet been finalised. | Self review threat – figures included in the return are also included in the financial statements. | Year ended 31 March 2020 and for all subsequent accounting periods. However, this will be assessed annually. | The specific testing of individual benefit claims and associated subsidy calculations undertaken in respect of the Housing Benefits agreed upon procedures engagement is distinct and separate to any work we have or will undertake on the financial systems of the Council. The results of the testing is not reflected in the amounts included/disclosed in the financial statements.<br>In respect of the checking of benefit system parameters, this work is common across our external audit procedures and this engagement.<br>Our external audit is concluded prior to this engagement. The external audit conclusion is therefore not reliant upon the conclusion of the Housing Benefit engagement.<br>No advice will be given in relation to accounting treatment.<br>The report we provide will be prepared or given solely for the purposes of the agreed upon procedures engagement for Housing Benefits and will not be used or relied upon for any other purposes. |

# Other communications

## EY Transparency Report 2018

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2019 and can be found here:

https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019

# New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.
We anticipate that new requirements for other entities will follow and we will continue to monitor and assess the impact.

# 09 Appendices

# Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table below.

| | Planned Fee 2019/20 | Final Fee 2018/19 |
|---|---|---|
| | £ | £ |
| Scale fee | 38,046 | 38,046 |
| Other | TBD (2) | 12,600 (1) |
| Total Fee – Code work | TBD | 50,646 |
| Other non-audit services not covered above (Housing Benefits) | TBD | - |
| Other non-audit services not covered above (Pooling of capital receipts) | TBD | 5,000 |
| Total other non-audit services | TBD | 5,000 |
| **Total fees** | **TBD** | **55,646** |

**All Fees shown are exclusive of VAT**

Non audit services are still to be determined for the 19/20 year. This includes Housing benefits and pooling of capital receipts work.

(Note 1) Scale Fee Variation for 2018/19 relates to additional audit work relating to:

- GMP and McCloud impact on the pension liability valuation
- Prior period adjustments relating to collection fund creditor / debtor classification
- New finance leases and related calculations and disclosure
- Minimum Revenue Provision calculation
- Errors identified within the draft accounts

(Note 2) For 2019/20, the scale fee will be impacted by a range of factors (see pages 34 and 35). The specific issues we have identified at the planning stage which will impact on the fee include the additional work that will be required to address the value for money risk identified, and the use of valuation specialists.

- In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

# Appendix A

## Fees

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. For an organisation such as the Borough Council the extent of audit procedures now required mean it will take around 900 hours to complete a quality audit. Based on our own modelling of the inputs required to complete an external audit of the Council concludes that a more appropriate scale fee for the delivery of an external audit to the Council would be in the region of £70,000.

**Summary of key factors**

1. **Status of sector.** Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.

   - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.

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2. **Audit of estimates.** There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

   - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists.

3. **Regulatory environment.** Other pressures come from the changing regulatory landscape and audit market dynamics:

   - Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.

   - This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

# Fees

**Summary of key factors (cont'd)**

4. As a result Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

    - We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.

    - We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.



**Next steps**

- In light of recent communication from PSAA, we will need to quantify the impact of the above to be able to accurately re-assess what the baseline fee is for the Council should be in the current environment.  Once this is done we will be able to discuss at a more detailed level with you.

# Appendix B

## Required communications with the Audit Committee

**We have detailed the communications that we must provide to the** Audit Committee.

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Terms of engagement | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit planning report – May 2020 |
| Significant findings from the audit | ▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>▸ Significant difficulties, if any, encountered during the audit<br>▸ Significant matters, if any, arising from the audit that were discussed with management<br>▸ Written representations that we are seeking<br>▸ Expected modifications to the audit report<br>▸ Other matters if any, significant to the oversight of the financial reporting process | Audit results report – July 2020 |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>▸ Whether the events or conditions constitute a material uncertainty<br>▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>▸ The adequacy of related disclosures in the financial statements | Audit results report – July 2020 |
| Misstatements | ▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation<br>▸ The effect of uncorrected misstatements related to prior periods<br>▸ A request that any uncorrected misstatement be corrected<br>▸ Corrected misstatements that are significant<br>▸ Material misstatements corrected by management | Audit results report – July 2020 |

# Appendix B

## Required communications with the Audit Committee (continued)

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Fraud | ▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity<br>▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>▸ A discussion of any other matters related to fraud | Audit results report – July 2020 |
| Related parties | ▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:<br>▸ Non-disclosure by management<br>▸ Inappropriate authorisation and approval of transactions<br>▸ Disagreement over disclosures<br>▸ Non-compliance with laws and regulations<br>▸ Difficulty in identifying the party that ultimately controls the entity | Audit results report – July 2020 |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>▸ The principal threats<br>▸ Safeguards adopted and their effectiveness<br>▸ An overall assessment of threats and safeguards<br>▸ Information about the general policies and process within the firm to maintain objectivity and independence | Audit planning report – May 2020<br>Audit Results Report - July 2020. |
| External confirmations | ▸ Management's refusal for us to request confirmations<br>▸ Inability to obtain relevant and reliable audit evidence from other procedures | Audit results report – July 2020 |

# Appendix B

## Required communications with the Audit Committee (continued)

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Consideration of laws and regulations | ▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off<br>▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of | Audit results report – July 2020 |
| Internal controls | ▸ Significant deficiencies in internal controls identified during the audit | Audit results report – July 2020 |
| Representations | Written representations we are requesting from management and/or those charged with governance | Audit results report – July 2020 |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report – July 2020 |
| Auditors report | ▸ Any circumstances identified that affect the form and content of our auditor's report | Audit results report – July 2020 |
| Fee Reporting | ▸ Breakdown of fee information when the audit plan is agreed<br>▸ Breakdown of fee information at the completion of the audit<br>▸ Any non-audit work | Audit planning report – May 2020<br>Audit results report – July 2020 |
| Certification work | Summary of certification work undertaken | Certification report |

# Additional audit information

## Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

**Our responsibilities required by auditing standards**

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.



## Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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Hinckley & Bosworth
Borough Council

*A Borough to be proud of*

FORWARD TIMETABLE OF CONSULTATION AND DECISION MAKING

Audit Committee 1 July 2020

WARDS AFFECTED: ALL WARDS

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**FINANCIAL STATEMENTS 2019/20**

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**Report of Head of Finance (Section 151 Officer)**

1. PURPOSE OF REPORT

1.1.1 To present to the Audit Committee a progress on the draft Financial Statement 2019/20 that will be subject to external audit. A final version of the draft financial statements will be presented for approval when complete.

RECOMMENDATION

2.1 To review progress on the 2019/20 unaudited Financial Statements.

2.2 To confirm if the final draft approval will either be
a) delegated to the Audit Committee Chair, or
b) at the full Audit Committee on the 29 July 2020.

3. BACKGROUND TO THE REPORT

3.1 In accordance with Accounts and Audit regulations, draft Financial Statements have to be signed of by the 31st August 2020 and ready for public inspection on or before the 1st September 2020. The attached unaudited statements are currently being finalised and will be signed off by the Head of Finance (s151 Officer)before the publication date. The accounts become available for public inspection from that date for a period of 30 days in which they can inspect or raise objections to items in the accounts. The statements have also been supplied to our External Auditor (Ernst & Young) for them to complete their audit and report back to the Audit Committee.

3.2 The annual governance statement is currently being finalised and will be forwarded to this committee once with the final unaudited statement is completed. Following the conclusion of the period for the exercise of public rights the Head of Finance as the responsible finance officer (RFO) is required, on behalf of the authority, to re-confirm that they are satisfied that the Statement of Accounts presents a ‘true and fair’ view. The authority must then consider the Statement of Accounts, which at HBBC is the responsibility of the Audit Committee on behalf of the Council. At that meeting the Audit Committee will need approve the accounts by a resolution of that committee and ensure that they are signed and dated by the person presiding at the committee as chair at which that approval is given. The Unaudited accounts are presented to help in the process. The final audited accounts have to be approved by the Audit Committee before the end of November 2020.

3.3 The main elements of the Financial Statements are noted below with a brief narrative explanation of their purpose.

| Section of Accounts | What it covers |
|---|---|
| **Comprehensive Income and Expenditure Statement (CIES)** | The CIES covers the sources of all income received and the cost of providing services in the year based on applicable accounting standards and CIPFA requirements. |
| **Movement in Reserves Statement (MiRS)** | The MiRS shows the movement in the year on the various reserves held by the Council. |
| **Expenditure & Funding Analysis** | This is a reconciliation between management's internal reporting and the CIES, which is based on the requirements of accounting standards as interpreted for the public sector. |
| **Balance Sheet** | The Balance sheet gives the value of the Council's assets and liabilities at the financial year-end. |
| **Cash Flow Statement** | The cash flow statement discloses movements in cash flows of the authority during the financial year. |
| **Notes to the financial statements** | These include a summary of significant accounting policies that guide our basis for the way items are accounted for in the financial statements. |
| **Supplementary Statements: Housing Revenue Accounts, and Collection Fund** | These are the Housing Revenue Account (HRA) and Collection Fund.<br>The HRA covers the income from housing activities and Council's expenditure on Council housing.<br>The Collection Fund gives level of business rates and council tax that the Council has to collect, not only for itself, but also for precepting authorities in Leicestershire. |
| **Annual Governance Statement** | The Council has approved and adopted a code of corporate governance. The Annual Governance Statement provides a summary of how the Council has reviewed compliance with this code. |

3.4 There are a few presentational changes to make to the accounts and do not impact on General Fund and HRA balances.

3.5 There have been no changes to our accounting policies this year.

## 4. EXEMPTIONS IN ACCORDANCE WITH THE ACCESS TO INFORMATION PROCEDURE RULES

4.1 Report taken in open session.

## 5. FINANCIAL IMPLICATIONS [IB]

5.1 Contained within the body of the report.

6. LEGAL IMPLICATIONS

6.1 None.

7. CORPORATE PLAN IMPLICATIONS

7.1 None.

8. CONSULTATION

8.1 None.

9. RISK IMPLICATIONS

9.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

9.2 It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

9.3 The following significant risks associated with this report / decisions were identified from this assessment:

| Management of significant (Net Red) Risks | | |
|---|---|---|
| Risk Description | Mitigating actions | Owner |
| None | N/A | Ashley Wilson |

10. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

10.1 There are no direct implications arising from this report

11. CORPORATE IMPLICATIONS

11.1 By submitting this report, the report author has considered the following:
- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Procurement implications
- Human Resources implications
- Planning implications
- Data Protection implications
- Voluntary Sector

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Background papers: None

Contact Officer: Ashley Wilson: Head of Finance
Executive Member: Cllr K Lynch

Hinckley & Bosworth
Borough Council

# Draft Statement Position for Audit Committee

*Hinckley Hansom Cab*

# 2019/2020

# Core financial statements

## The Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into ‘usable reserves’ (i.e. those can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the Council’s services and more details are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax and dwellings rent setting purposes respectively. The “Net increase/decrease before transfers to earmarked reserves” line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

## The Comprehensive Income and Expenditure Statement

This statement is fundamental to the understanding of the Council’s activities, in that it reports the cost of services of the functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers. It brings together expenditure and income relating to all of the Council’s functions, in three distinct sections, each divided by a sub-total.

The *first* section provides accounting information on the costs of the local Council’s different services, net of specific grants and income from fees and charges, to give the cost of services. It also includes the cost of any acquired and discontinued operations.

The *second* section comprises items of income and expenditure relating to the Council as a whole. When added to the cost of services these give the Council’s Surplus or Deficit on provision of services and it also include the cost of any acquired or discontinued operations.

The *third* section shows the total comprehensive income and expenditure. Not all gains and losses are reflected in the Surplus or Deficit on provision of services for example, gains on revaluations of Non Current Assets are excluded, because they arise out of asset changes rather than from the entity’s operating performance that complete position and performance of the Council. Therefore it is necessary to consider all gains and losses recognised in a period when assessing the financial result for the period in this section. This is the total gains and losses of the Council to give a complete performance of the Council.

## The Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by reserves held by the Council. Reserves are reported in two categories. The first is usable reserves and these are reserves which the Council can use to provide services. The second is unusable reserves the Council cannot use to provide services.

## The Cash Flow Statement

The Cash Flow statement shows how the Council generates and uses cash and cash equivalents and is produced using CIPFA’s indirect method.

## The Expenditure and Funding Analysis note

The 'Expenditure & Funding Analysis' note provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES. It also shows how the expenditure is allocated for decision making purposes between directorates/services. This change has enabled the previous segmental reporting requirements to be streamlined. The changes will remove some of the complexities of the current segmental note.

## Movement in Reserves Statement

| | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied Reserve | Total Usable Reserves | Unusable Reserve | Total Authority Reserves |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Balance at 31 March 2018 carried forward** | **9,920** | **11,224** | **4,734** | **599** | **2,938** | **29,415** | **103,000** | **132,415** |
| **Total Comprehensive Income and Expenditure** | **(3,868)** | **752** | **0** | **0** | **0** | **(3,116)** | **(3,310)** | **(6,426)** |
| Adjustments between accounting basis & funding basis under regulations (Note 6) | 4,444 | (777) | 3,247 | 9 | (62) | **6,861** | **(6,861)** | 0 |
| **Increase/(Decrease) in Year** | **576** | **(25)** | **3,247** | **9** | **(62)** | **3,745** | **(10,171)** | **(6,426)** |
| **Balance at 31 March 2019 carried forward** | **10,496** | **11,199** | **7,981** | **608** | **2,876** | **33,160** | **92,829** | **125,989** |
| **Total Comprehensive Income and Expenditure** | **(3,790)** | **2,129** | **0** | **0** | **0** | **(1,661)** | **8,819** | **7,158** |
| Adjustments between accounting basis & funding basis under regulations (Note 6) | 3,617 | (3,563) | 1,108 | 0 | (75) | 1,087 | (1,087) | 0 |
| **Increase/(Decrease) in Year** | **(173)** | **(1,434)** | **1,108** | **0** | **(75)** | **(574)** | **7,732** | **7,158** |
| **Balance at 31 March 2020 carried forward** | **10,323** | **9,765** | **9,089** | **608** | **2,801** | **32,586** | **100,561** | **133,147** |
| Fund Balance | 2,021 | 901 | | | | | | |
| Earmarked reserve | 8,301 | 8,862 | | | | | | |
| **Balance at 31 March 2020 carried forward** | **10,322** | **9,763** | | | | | | |

# Comprehensive Income and Expenditure Statement

| 2018/19 Gross Expenditure £'000 | 2018/19 Gross Income £'000 | 2018/19 Expenditure/ (Income) £'000 | | Note | 2019/20 Gross Expenditure £'000 | 2019/20 Gross Income £'000 | 2019/20 Expenditure/ (Income) £'000 |
|---|---|---|---|---|---|---|---|
| 3,939 | (2,196) | 1,743 | Community Services | | 4,110 | (2,041) | 2,069 |
| 19,730 | (15,803) | 3,927 | Corporate Services | | 16,844 | (14,862) | 1,982 |
| 12,198 | (4,017) | 8,181 | Environment & Planning | | 12,694 | (4,466) | 8,228 |
| 1,827 | (1,559) | 268 | Support Services | | 2,467 | (1,656) | 811 |
| 11,100 | (13,528) | (2,428) | HRA - Housing Revenue Account | | 9,738 | (13,410) | (3,672) |
| **48,794** | **(37,103)** | **11,691** | **Cost Of Services** | | **45,853** | **(36,435)** | **9,418** |
| 1,877 | 0 | 1,877 | Other Operating Expenditure | 8 | 2,097 | 0 | 2,097 |
| 5,511 | (1,893) | 3,618 | Financing and Investment Income and Expenditure | 9 | 5,649 | (1,896) | 3,753 |
| 1,727 | (15,797) | (14,070) | Taxation and Non-Specific Grant Income | 10 | 2,172 | (15,779) | (13,607) |
| **57,909** | **(54,793)** | **3,116** | (Surplus) or Deficit on Provision of Services | | **55,771** | **(54,110)** | **1,661** |
| | | (3,315) | Surplus or deficit on revaluation of fixed assets | 11 | | | 2,407 |
| | | 6,625 | Remeasurements on pension assets / liabilities | 36 | | | (11,226) |
| | | **3,310** | Other Comprehensive Income and Expenditure | | | | **(8,819)** |
| | | **6,426** | Total Comprehensive Income and Expenditure | | | | **(7,158)** |

# Balance Sheet

| As at 31 March 2019 £'000 | | Note | As at 31 March 2020 £'000 |
|---|---|---|---|
| 242,913 | Property, Plant & Equipment | 11 | 239,674 |
| 121 | Heritage Assets | 12 | 121 |
| 646 | Intangible Assets | 13 | 647 |
| 111 | Long Term Receivables | 17 | 109 |
| 243,791 | **Long Term Assets** | | 240,551 |
| 16,400 | Short Term Investments | 16 | 12,930 |
| 0 | Assets Held for Sale | 14 | 1,100 |
| 16 | Inventories | | 24 |
| 3,730 | Short Term Receivables | 18 | 4,052 |
| 3,357 | Cash and Cash Equivalents | 15 | 4,411 |
| 23,503 | **Current Assets** | | 22,517 |
| (186) | Cash and Cash Equivalents | 15 | 50 |
| (9,685) | Short Term Payables | 19 | (9,968) |
| (427) | Short Term Lease Liability | 34 | (452) |
| (1,408) | Provisions | 20 | (919) |
| (11,706) | **Current Liabilities** | | (11,289) |
| (598) | Long Term Payables | 19 | (1,196) |
| (75,952) | Long Term Borrowing | 37 | (73,011) |
| (53,023) | Other Long Term Liabilities | 21 | (44,352) |
| (25) | Capital Grants Receipts in Advance | | (73) |
| (129,598) | **Long Term Liabilities** | | (118,632) |
| **125,990** | **Net Assets** | | **133,147** |
| 33,161 | Usable Reserves | 22 | 32,587 |
| 92,829 | Unusable Reserves | 23 | 100,560 |
| **125,990** | **Total Reserves** | | **133,147** |

## Cash Flow Statement

| 2018/19 £'000 | | Note | 2019/20 £'000 |
|---|---|---|---|
| (3,116) | Net surplus or (deficit) on the provision of services | | (1,661) |
| 10,954 | Adjustment to surplus or deficit on the provision of services for noncash movements | | 8,353 |
| (1,117) | Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities | | 842 |
| 6,721 | Net Cash flows from Operating Activities | 24 | 7,534 |
| (8,567) | Net Cash flows from Investing Activities | 25 | (1,616) |
| (195) | Net Cash flows from Financing Activities | 26 | (4,628) |
| (2,041) | Net increase or decrease in cash and cash equivalents | | 1,290 |
| 5,212 | Cash and cash equivalents at the beginning of the reporting period | | 3,171 |
| **3,171** | Cash and cash equivalents at the end of the reporting period | 15 | **4,461** |

# Expenditure and Funding Analysis

| **2019/20** | **As reported for resource management £'000** | **Adjustment to arrive at the net amount chargeable to General Fund and HRA Balances £'000** | **Net Expenditure chargeable to the General Fund and HRA £'000** | **Adjustments between Funding and Accounting Basis £'000** | **Net Expenditure in the Comprehensive Income and Expenditure Statement £'000** |
|---|---|---|---|---|---|
| Community Services | 1,550 | (653) | 897 | 1,172 | 2,069 |
| Corporate Services | 2,515 | (1,076) | 1,439 | 543 | 1,982 |
| Environment & Planning | 5,693 | 1,597 | 7,290 | 938 | 8,228 |
| Support Services | 3,942 | (3,518) | 424 | 387 | 811 |
| Housing (HRA) | (6,392) | 6,239 | (153) | (3,519) | (3,672) |
| Net cost of Services | 7,308 | 2,589 | 9,897 | (479) | 9,418 |
| Other Income and Expenditure | (8,218) | (73) | (8,291) | 534 | (7,757) |
| Surplus or Deficit | (910) | 2,516 | 1,606 | 55 | 1,661 |

| | |
|---|---|
| Opening General Fund and HRA Balance | 21,695 |
| Less Deficit on General Fund and HRA Balances | (1,606) |
| **Closing General Fund and HRA Balance at 31 March** | 20,089 |

## Expenditure and Funding Analysis

| **2018/19** | **As reported for resource management £'000** | **Adjustment to arrive at the net amount chargeable to General Fund and HRA Balances £'000** | **Net Expenditure chargeable to the General Fund and HRA £'000** | **Adjustments between Funding and Accounting Basis £'000** | **Net Expenditure in the Comprehensive Income and Expenditure Statement £'000** |
|---|---|---|---|---|---|
| Community Services | 1,216 | (526) | 690 | 1,053 | 1,743 |
| Corporate Services | 2,293 | 637 | 2,930 | 997 | 3,927 |
| Environment & Planning | 5,336 | 2,314 | 7,650 | 531 | 8,181 |
| Support Services | 3,948 | (4,083) | (135) | 403 | 268 |
| Housing (HRA) | (6,678) | 5,027 | (1,651) | (777) | (2,428) |
| Net cost of Services | 6,115 | 3,369 | 9,484 | 2,207 | 11,691 |
| Other Income and Expenditure | (9,077) | (958) | (10,035) | 1,460 | (8,575) |
| Surplus or Deficit | (2,962) | 2,411 | (551) | 3,667 | 3,116 |

| | |
|---|---|
| Opening General Fund and HRA Balance | 21,144 |
| Less Deficit on General Fund and HRA Balances | 551 |
| **Closing General Fund and HRA Balance at 31 March** | 21,695 |

## Note to the Expenditure and Funding Analysis

**2019/20**

| **Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts** | **Adjustments for Capital Purposes** | **Net Change for the Pensions Adjustments** | **Other Differences** | **Total Adjustments** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Community Services | 1,173 | 0 | 0 | 1,173 |
| Corporate Services | 540 | 0 | 3 | 543 |
| Environment & Planning | 936 | 0 | 1 | 937 |
| Support Services | 386 | 0 | 1 | 387 |
| HRA - Housing Revenue Account | (3,860) | 341 | 0 | (3,519) |
| **Net Cost of Services** | **(825)** | **341** | **5** | **(479)** |
| **Other income and expenditure** | (1,430) | 2,655 | (691) | 534 |
| **Total** | **(2,255)** | **2,996** | **(686)** | **55** |

**2018/19**

| **Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts** | **Adjustments for Capital Purposes** | **Net Change for the Pensions Adjustments** | **Other Differences** | **Total Adjustments** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Community Services | 1,050 | 0 | 3 | 1,053 |
| Corporate Services | 997 | 0 | 0 | 997 |
| Environment & Planning | 528 | 0 | 3 | 531 |
| Support Services | 403 | 0 | 0 | 403 |
| HRA - Housing Revenue Account | (1,169) | 393 | 0 | (776) |
| **Net Cost of Services** | **1,809** | **393** | **6** | **2,208** |
| **Other income and expenditure** | (1,312) | 2,841 | (70) | 1,459 |
| **Total** | **497** | **3,234** | **(64)** | **3,667** |

## Supplementary Analysis for the CIES Expenditure and Income Analysed by Nature

Currently being Finalised

## Supplementary Analysis for the CIES Segment Reporting

Currently being Finalised

# Notes to the Core Financial Statements

## 1. Accounting Standards that Have Been Issued but Have Not Yet Been Adopted

Currently being Finalised

## 2. Critical Judgements in Applying Accounting Policies

Currently being Finalised

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

The Accounting Policies describe the significant areas in which estimates and assumptions have been made relating to the reporting of results of operations and the financial position of the Council.

The items in the Council's Balance Sheet at 31st March 2020 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

**Table 1: Uncertainties**

| Item | 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 Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.<br><br>Property Plant and Equipment are reviewed for both economic and price impairment on an annual basis. Any movement in market value of property will have any impact on the Council's valuation. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.<br><br>If an asset is impaired the carrying amount of the asset is reduced. |
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. These judgements are made by actuaries appointed by Leicestershire County Council who administer the pension fund. | The effect on the net pension liability of changes in individual assumptions can be measured. For instance:<br>• A decrease in the discount rate assumption would result in an increase in pension liability.<br>• A one year increase in member life expectancy would result in an increase in pension liability.<br><br>• An increase in the pension rate would result in an increase in pension liability.<br>• A 1% increase in the pension liability would decrease the Council's net assets by £0.352 million. |
| Provisions | The council has made provision in relation to National Non-Domestic Rate Appeals. This provision is based on an estimation of any future liability and the likelihood that these costs will be incurred. | If the estimates used in the calculation of the provision prove to be inaccurate then there will be further income or expenditure incurred by the General Fund via the Collection Fund. |
| Britain leaving the European Union (Brexit) | There is a high level of uncertainty about the implications of Britain leaving the European Union. At the current time the final decision on the UK future relationship with the EU is unknown. It is not possible to predict which path will be taken and whether liability or asset values will consequently change. The assumption has been made that this will not significantly impair the value of the Council's assets or increase liabilities held. | Higher impairment allowances may need to be charged in the future if asset values fall and if the discount rate changes the size of the net pension liability will also vary. |

## 4. Material Items of Income and Expenditure

There are no other material items, not otherwise disclosed in the Comprehensive Income and Expenditure Statement and other schedules that require disclosure here.

## 5. Events After the Balance Sheet Date

Currently being Finalised

6. Adjustments between Accounting Basis and Funding Basis under Regulation

| 2019/20 | General Fund Balance £'000 | Housing Revenue Account £'000 | Capital Receipts Reserve £'000 | Major Repair Reserves £'000 | Capital Grants Unapplied £'000 | Movement in Unusable Reserves £'000 |
|---|---|---|---|---|---|---|
| **Adjustments primarily involving the Capital Adjustment Account** | | | | | | |
| *Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement to comply with Accounting Practice but not chargeable under statute* | | | | | | |
| Charges for depreciation and amortisation of non-current assets | (1,927) | (2,699) | 0 | 0 | 0 | 4,627 |
| Revaluation losses/gains on Property Plant and Equipment | (441) | (178) | 0 | 0 | 0 | 619 |
| Revenue expenditure funded from capital under statute | (1,107) | 0 | 0 | 0 | 0 | 1,107 |
| Capital expenditure financed from Unapplied Grants and Contributions | 408 | 0 | 0 | 0 | 0 | (408) |
| 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 | 0 | (1,893) | 0 | 0 | 0 | 1,893 |
| Capital expenditure charged to fund balances | 27 | 0 | 0 | 0 | 0 | (27) |
| *Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement to comply with Accounting Practice but not chargeable under statute* | | | | | | |
| Statutory Provision for the financing of capital investment | 1,298 | 0 | 0 | 0 | 0 | (1,298) |
| | (1,741) | (4,770) | 0 | 0 | 0 | 6,511 |
| **Adjustments primarily involving the Capital Grants Unapplied Reserve** | | | | | | |
| Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | 275 | 0 | 0 | 0 | (275) | 0 |
| Application of earmarked reserves to capital financing transferred to the Capital Adjustment Account | 234 | 3,331 | 0 | 0 | 0 | (3,565) |
| Application of grants to capital financing transferred to the Capital Adjustment Account | 0 | 0 | 0 | 0 | 350 | (350) |
| | 509 | 3,331 | 0 | 0 | 75 | (3,915) |
| **Adjustments primarily involving the Capital Receipts Reserve** | | | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 0 | 2,335 | (2,335) | 0 | 0 | 0 |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | (415) | 0 | 415 | 0 | 0 | 0 |
| Use of the Capital Receipts reserve to finance new expenditure | 0 | 0 | 811 | 0 | 0 | (811) |
| | (415) | 2,335 | (1,108) | 0 | 0 | (811) |

| | General Fund Balance £'000 | Housing Revenue Account £'000 | Capital Receipts Reserve £'000 | Major Repair Reserves £'000 | Capital Grants Reserve £'000 | Movement in Unusable Reserves £'000 |
|---|---|---|---|---|---|---|
| **Adjustments involving the Pension Reserve** | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (4,830) | (767) | 0 | 0 | 0 | 5,597 |
| Employers pension contribution payable in the year | 2,175 | 426 | 0 | 0 | 0 | (2,601) |
| | (2,655) | (341) | 0 | 0 | 0 | 2,996 |
| **Adjustments involving the Major Repairs Reserve** | | | | | | |
| Reversal of Major Repairs Allowance credited to the HRA | 0 | 3,009 | 0 | (3,009) | 0 | 0 |
| Use of the Major Repairs Reserve to finance new capital expenditure | 0 | 0 | 0 | 3,009 | 0 | (3,009) |
| | 0 | 3,009 | 0 | 0 | 0 | (3,009) |
| **Adjustments involving the Collection Fund Adjustment Reserve** | | | | | | |
| 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 | (34) | 0 | 0 | 0 | 0 | 34 |
| Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements | 726 | 0 | 0 | 0 | 0 | (726) |
| | 692 | 0 | 0 | 0 | 0 | (692) |
| **Adjustment involving the Accumulated Absences Adjustment Account** | | | | | | |
| Amount by which staff remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from that chargeable in the year in accordance with statutory requirements | (6) | (1) | 0 | 0 | 0 | 7 |
| **Adjustment involving the Financial Instrument 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 | 0 | 0 | 0 | 0 | 0 |
| | **(3,617)** | **3,563** | **(1,108)** | **0** | **75** | **1,087** |

| 2018/19 | General Fund Balance £'000 | Housing Revenue Account £'000 | Capital Receipts Reserve £'000 | Major Repair Reserves £'000 | Capital Grants Unapplied £'000 | Movement in Unusable Reserves £'000 |
|---|---|---|---|---|---|---|
| **Adjustments primarily involving the Capital Adjustment Account** | | | | | | |
| *Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement to comply with Accounting Practice but not chargeable under statute* | | | | | | |
| Charges for depreciation and amortisation of non-current assets | (1,514) | (2,696) | 0 | 0 | 0 | 4,210 |
| Revaluation losses/gains on Property Plant and Equipment | (1,155) | (1,619) | 0 | 0 | 0 | 2,774 |
| Revenue expenditure funded from capital under statute | (1,465) | 0 | 0 | 0 | 0 | 1,465 |
| Capital expenditure financed from Unapplied Grants and Contributions | 389 | 0 | 0 | 0 | 0 | (389) |
| 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 | (1,801) | (1,788) | 0 | 0 | 0 | 3,589 |
| Capital expenditure charged to fund balances | 45 | 0 | 0 | 0 | 0 | (45) |
| *Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement to comply with Accounting Practice but not chargeable under statute* | | | | | | |
| Statutory Provision for the financing of capital investment | 1,193 | 0 | 0 | 0 | 0 | (1,193) |
| | (4,308) | (6,103) | 0 | 0 | 0 | 10,411 |
| **Adjustments primarily involving the Capital Grants Unapplied Reserve** | | | | | | |
| Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | 114 | 50 | 0 | 0 | (164) | 0 |
| Application of earmarked reserves to capital financing transferred to the Capital Adjustment Account | 913 | 2,115 | 0 | 0 | 0 | (3,028) |
| Application of grants to capital financing transferred to the Capital Adjustment Account | 0 | 0 | 0 | 0 | 350 | (350) |
| | 1,027 | 2,165 | 0 | 0 | 186 | (3,378) |
| **Adjustments primarily involving the Capital Receipts Reserve** | | | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 2,028 | 2,099 | (4,127) | 0 | 0 | 0 |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | (415) | 0 | 415 | 0 | 0 | 0 |
| Use of the Capital Receipts reserve to finance new expenditure | 0 | 0 | 811 | 0 | 0 | (811) |
| | 1,613 | 2,099 | (2,901) | 0 | 0 | (811) |

| | General Fund Balance £'000 | Housing Revenue Account £'000 | Capital Receipts Reserve £'000 | Major Repair Reserves £'000 | Capital Grants Reserve £'000 | Movement in Unusable Reserves £'000 |
|---|---|---|---|---|---|---|
| **Adjustments involving the Pension Reserve** | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (4,857) | (772) | 0 | 0 | 0 | 5,629 |
| Employers pension contribution payable in the year | 2,015 | 380 | 0 | 0 | 0 | (2,395) |
| | (2,842) | (392) | 0 | 0 | 0 | 3,234 |
| **Adjustments involving the Major Repairs Reserve** | | | | | | |
| Reversal of Major Repairs Allowance credited to the HRA | 0 | 3,009 | 0 | (3,009) | 0 | 0 |
| Use of the Major Repairs Reserve to finance new capital expenditure | 0 | 0 | 0 | 3,000 | 0 | (3,000) |
| | 0 | 3,009 | 0 | (9) | 0 | (3,000) |
| **Adjustments involving the Collection Fund Adjustment Reserve** | | | | | | |
| 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 | (52) | 0 | 0 | 0 | 0 | 52 |
| Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements | 118 | 0 | 0 | 0 | 0 | (118) |
| | 66 | 0 | 0 | 0 | 0 | (66) |
| **Adjustment involving the Accumulated Absences Adjustment Account** | | | | | | |
| Amount by which staff remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from that chargeable in the year in accordance with statutory requirements | (5) | (1) | 0 | 0 | 0 | 6 |
| **Adjustment involving the Financial Instrument 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 | 5 | 0 | 0 | 0 | 0 | (5) |
| | **(4,444)** | **777** | **(2,901)** | **(9)** | **186** | **6,391** |

## 7. Transfers To/From Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2018/19. In addition the note outlines balances of unapplied grants and contributions.

| | Balance at 31 March 2018 | Transfers Out 2018/19 | Transfers In 2018/19 | Balance at 31 March 2019 | Transfers Out 2019/20 | Transfers In 2019/20 | Balance at 31 March 2020 |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **General Fund** | | | | | | | |
| Benefits | 59 | 0 | 0 | 59 | (59) | 0 | 0 |
| Local Plan Procedure | 607 | (30) | 100 | 677 | (288) | 72 | 461 |
| Pensions Contribution | 107 | (54) | 0 | 53 | (53) | 0 | 0 |
| Waste Management | 301 | (175) | 250 | 376 | (55) | 0 | 321 |
| ICT | 250 | (99) | 100 | 251 | (139) | 162 | 274 |
| Asset Management | 798 | 0 | 0 | 798 | (398) | 0 | 400 |
| Planning Delivery Grant | 18 | 0 | 0 | 18 | 0 | 0 | 18 |
| Workforce Strategy | 0 | (175) | 225 | 50 | (50) | 0 | 0 |
| Elections | 122 | (42) | 0 | 80 | (80) | 0 | 0 |
| Grounds Maintenance | 127 | (200) | 73 | 0 | 0 | 30 | 30 |
| Transformation | 52 | (32) | 0 | 20 | (20) | 0 | 0 |
| Relocation | 50 | (50) | 0 | 0 | 0 | 0 | 0 |
| Special Expenses | 149 | (15) | 20 | 154 | (11) | 20 | 163 |
| Carry Forwards | 226 | (188) | 302 | 340 | (302) | 229 | 267 |
| Hub Future Rental Management | 350 | 0 | 50 | 400 | 0 | 0 | 400 |
| Business Rates Equalisation | 2,374 | (555) | 745 | 2,564 | 0 | 1,059 | 3,623 |
| Maintenance Fund - Green Towers | 25 | 0 | 5 | 30 | 0 | 5 | 35 |
| Minor Capital Projects | 0 | 0 | 175 | 175 | (175) | 0 | 0 |
| Hinckley Communities Initiative Fund | 0 | 0 | 350 | 350 | 0 | 0 | 350 |
| Enforcement & Planning Appeals | 270 | (40) | 0 | 230 | 0 | 0 | 230 |
| Parish & Communities Initiative Fund | 0 | 0 | 375 | 375 | (250) | 0 | 125 |
| Earl Shilton Toilets | 100 | 0 | 0 | 100 | (34) | 0 | 66 |
| Building Maintenance Costs | 388 | 0 | 200 | 588 | 0 | 0 | 588 |
| Developing Communities Fund | 1,059 | (683) | 499 | 875 | (175) | 250 | 950 |
| **Total Earmarked Reserves** | **7,432** | **(2,338)** | **3,469** | **8,563** | **(2,089)** | **1,827** | **8,301** |
| Unapplied Grants and Contributions | 2,926 | (226) | 116 | 2,816 | (600) | 522 | 2,738 |
| **Total General Fund** | **10,358** | **(2,564)** | **3,585** | **11,379** | **(2,689)** | **2,349** | **11,039** |

## 7. Transfers To/From Earmarked Reserves (continued)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Housing Revenue Account** | | | | | | | |
| HRA Piper Balance | 167 | (98) | 11 | 80 | (50) | 10 | 40 |
| HRA Communal Furniture | 5 | 0 | 0 | 5 | 0 | 0 | 5 |
| HRA Housing Repairs Account | 329 | (40) | 0 | 289 | (75) | 0 | 214 |
| Major Repairs Reserve | 599 | (3,000) | 3,010 | 609 | (3,009) | 3,009 | 609 |
| Regeneration | 9,857 | (2,015) | 2,056 | 9,898 | (3,281) | 1,792 | 8,409 |
| Pension Contributions | 36 | 0 | 3 | 39 | 0 | 4 | 43 |
| Service Improvement | 50 | 0 | 0 | 50 | 0 | 0 | 50 |
| Rent Equalisation | 0 | 0 | 0 | 0 | 0 | 60 | 60 |
| HRA Carry Forwards | 43 | 0 | 0 | 43 | 0 | 0 | 43 |
| **Total HRA Earmarked Reserves** | **11,086** | **(5,153)** | **5,080** | **11,013** | **(6,415)** | **4,875** | **9,473** |
| HRA Unapplied Grants and Contributions | 13 | 0 | 50 | 63 | 0 | 0 | 63 |

# Earmarked Reserves General Fund

### Commutation and Feasibility Reserve

The Council has been applying the commutation adjustment to reduce its Minimum Revenue Provision (MRP), but prospective increases in the capital financing requirement and a reducing commutation adjustment means that there will be a progressive increase in future MRP. Proposed capital projects often need feasibility studies before final commitment can be made to a project. This reserve will also be used to cater for each of these requirements.

### Benefits Reserve

This reserve is to allow for variances between estimates for benefit payments and the subsidy received. In view of the material budget only a small variation would have a significant effect on balances. It is therefore prudent to keep an earmarked reserve for such variations. In addition, this reserve is in place to fund any large one off costs arising in the benefits service (e.g. redundancy costs).

### Local Plan Procedure Reserve

This reserve is to fund the costs of the Local Development Framework. The reserve will be used as elements of the framework are required.

### Pensions Contribution Reserve (General Fund and HRA)

This reserve has been created to meet future potential increases in employer’s pension contributions resulting from triennial valuations of the Pensions Fund and requirements for “opt in” in 2018.

### Waste Management Reserve

The Waste Management service is currently experiencing a number of pressures on its resources particularly in respect of the need to recycle more and conduct additional rounds. This reserve has been set up using under spends to provide resources to address the pressures ahead for this high priority service area.

### ICT Reserve

This reserve was set up to be used to further improve the ICT support service, in particular by upgrading the aging infrastructure and ICT.

### Asset Management Reserve

At the present time the Council has an ambitious Capital Programme and is looking to facilitate the regeneration of Hinckley Town Centre & the Council's property portfolio.

### Planning Delivery Grant Reserve

This reserve has been set up to carry forward receipts of Planning Delivery Grant that will be spent in future years.

### Workforce Strategy Reserve

This reserve will fund resources to enable a corporate Workforce Strategy to be developed.

### Elections Reserve

Elections to the Borough Council are held every four years. It is considered to be inequitable to charge the full cost in the year of the election. An earmarked reserve has therefore been created to allow the cost of the election to be provided for each year.

### Grounds Maintenance Machinery Reserve

This reserve has been established from the savings in rental charges following the initial purchase of new machinery to allow for its replacement at the end of its useful life.

### Transformation Reserve

This reserve has been created to provide resources to support the Transformation agenda within the Council.

### Relocation Reserve

This reserve was established from savings in 2010/11 to provide resources to support the Council's office moves and subsequent expenditure.

### Special Expenses Reserve

This reserve has been established to fund additional parks and open spaces expenditure within the Hinckley area.

### Carry Forwards Reserve

Relates to those budget carry forwards (General Fund and HRA) authorised from the previous financial year.

**Business Rates Equalisation Reserve**

Under Business Rates Retention, certain losses in rates will need to be funded by the Council. This reserve has been created to reflect the total amount of Business Rates this Council is required to "lose" before receipt of a safety net payment.

**Hinckley Communities Initiatives Fund**

Reserve created to match fund capital costs community of led regeneration projects in Hinckley Town.

**Maintenance Fund – Green Towers Reserve**

This reserve provides for any additional support that may be required for Hinckley Club for Young People e.g. issues with the building.

**Parish & Communities Initiative Fund**

Reserve created to match fund capital costs community of led regeneration projects in Hinckley Town

**Minor Capital Projects**

Reserve to fund future small regeneration projects in the Borough..

**Appeals Reserve**

Funds put aside to fund legal costs that may arise as a result of planning appeals.

**Enforcement & Planning Appeals Reserve**

A number of individual enforcement budgets have been consolidated in year and transferred to a reserve to act as a contingency for large cases that may arise.

**Planning Capacity**

Given significant fluctuations in the workload of Planning Services (e.g. due to influx of applications), this reserve has been set up to fund interim support that may be required. This reserve was created from additional planning fees that were received in 2014/15.

**Earl Shilton Toilets Reserve**

This reserve has been created to set aside funding for the future development of a public toilet facility in Earl Shilton.

**Building Maintenance Costs**

This reserve has been set to fund future one off maintenance pressures to non HRA properties.

**Developing Communities Fund**

This reserve has been set up to support efficiency and invest to save projects across parishes.

## Earmarked Reserves Housing Revenue Account

**Piper Balance Reserve**

This reserve will provide funding for the replacement of the Piper alarm system at the control centres when the current system becomes unviable.

**Communal Furniture Reserve**

This reserve has been created to provide for the replacement of furniture in communal areas of sheltered housing schemes which currently do not meet safety standards.

**Housing Repairs Account Reserve**

The Housing Repairs Reserve represents the cost of providing the housing repairs service to the Borough. This is detailed further in the notes to the Housing Revenue Account.

**Regeneration Reserve**

This reserve has been created from the available funds within the Housing Revenue Account following the introduction of self financing. The reserve will be used to fund projects outlined in the HRA Business and Investment Plans.

**Service Improvement Reserve**

Funds put aside from salary savings to fund costs associated with initiatives to improve the housing service.

**Rent Equalisation Reserve**

Funds set aside to reduce the potential impact from rent losses.

## 8. Other Operating Expenditure

| | 2019/20<br>£'000 | 2018/19<br>£'000 |
|---|---|---|
| (Gain)/ Losses on disposal of Non Current Assets | (407) | (540) |
| Amounts due to Precepting Authorities | 2,089 | 2,002 |
| Contribution to Housing Pooled Capital Receipts | 415 | 415 |
| **Total Operating Expenditure** | **2,097** | **1,877** |

## 9. Financing and Investment Income and Expenditure

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Interest Payable and Similar Charges (see note 37)* | 3,028 | 2,984 |
| Pension Interest Costs (see note 36) | 2,694 | 2,652 |
| Net Surplus of Undertakings (see note 27) | (73) | (125) |
| Interest and Investment Income (see note 37) | (270) | (180) |
| Expected Return on Pension Assets (see note 36) | (1,626) | (1,713) |
| **Total Financing and Investment Income & Expenditure** | **3,753** | **3,618** |

* - Interest payable in 2018/19 includes £2.088 million interest on HRA self financing loans (2017/18 HRA interest £2.088 million)

## 10. Taxation and Non Specific Grant Income

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Council Tax | (7,200) | (6,918) |
| Revenue Support Grant (see note 30) | 0 | (437) |
| National Non Domestic Rates | (2,647) | (2,816) |
| New Homes Bonus (see note 30) | (2,271) | (2,571) |
| S31 Grant Income (see note 30) | (1,490) | (1,289) |
| New Burdens Grant | 0 | (39) |
| **Total Taxation and Non Specific Grant Income** | **(13,608)** | **(14,070)** |

## 11. Property, Plant and Equipment

| **2019/20** | **Council Dwellings** | **Other Land and Buildings** | **Vehicles, Plant and Equipment** | **Community Assets** | **Infrastructure Assets** | **Assets under Construction** | **Surplus Assets*** | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| As at 1 April 2019 | 176,440 | 50,217 | 10,894 | 5,147 | 1,506 | 2,037 | 2,040 | 248,281 |
| Asset Transfers/Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer to Asset held for Sale | 0 | 0 | 0 | 0 | 0 | 0 | (1,100) | (1,100) |
| Additions | 6,318 | 191 | 266 | 31 | 0 | 370 | | 7,176 |
| Revaluation Increases/(Decreases) | | | | | | | | |
| - Recognised in the Revaluation Reserve | (3,775) | 554 | 0 | 0 | 0 | 0 | (940) | (4,161) |
| - Recognised in Provision of Services | (1,346) | (643) | 0 | 0 | 0 | (237) | 0 | (2,226) |
| Derecognition - Disposals | (1,893) | 0 | 0 | 0 | 0 | 0 | 0 | (1,893) |
| **As at 31 March 2020** | **175,745** | **50,319** | **11,160** | **5,178** | **1,506** | **2,170** | **0** | **246,077** |
| **Depreciation and Impairments** | | | | | | | | |
| As at 1 April 2019 | 0 | 0 | (4,868) | 0 | (500) | 0 | 0 | (5,368) |
| Depreciation charge | (2,644) | (716) | (981) | 0 | (55) | 0 | 0 | (4,395) |
| Depreciation written out to | | | | | | | | |
| - The Revaluation Reserve | 1,240 | 514 | 0 | 0 | 0 | 0 | 0 | 1,754 |
| - The Provision of Services | 1,404 | 201 | 0 | 0 | 0 | 0 | 0 | 1,606 |
| **As at 31 March 2020** | **0** | **0** | **(5,849)** | **0** | **(555)** | **0** | **0** | **(6,404)** |
| **Net Book Value at 31 March 2020** | **175,745** | **50,319** | **5,311** | **5,178** | **951** | **2,170** | **0** | **239,673** |

***** *Former Leisure Centre Site- Valued at "Fair Value" which is the estimated best available market value price." Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs is significant, leading to the properties being categorised as Level 2 on the fair value hierarchy.

## 11. Property, Plant and Equipment (continued)

| **2018/19** | **Council Dwellings** | **Other Land and Buildings** | **Vehicles, Plant and Equipment** | **Community Assets** | **Infrastructure Assets** | **Assets under Construction** | **Surplus Assets** | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| As at 1 April 2018 | 176,833 | 48,956 | 7,652 | 5,091 | 1,506 | 1,912 | 2,040 | 243,990 |
| Asset Transfers/Reclassifications | 48 | 0 | 0 | 0 | 0 | (48) | 0 | 0 |
| Transfer to Asset held for Sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Additions | 5,127 | 236 | 3,242 | 56 | 0 | 199 | 1 | 8,861 |
| Revaluation Increases/(Decreases) | | | | | | | | |
| - Recognised in the Revaluation Reserve | (2,164) | 2,396 | 0 | 0 | 0 | 0 | (1) | 231 |
| - Recognised in Provision of Services | (1,617) | (1,371) | 0 | 0 | 0 | (26) | 0 | (3,014) |
| Derecognition - Disposals | (1,787) | 0 | 0 | 0 | 0 | 0 | 0 | (1,787) |
| **As at 31 March 2019** | **176,440** | **50,217** | **10,894** | **5,147** | **1,506** | **2,037** | **2,040** | **248,281** |
| **Depreciation and Impairments** | | | | | | | | |
| As at 1 April 2018 | 0 | 0 | (4,237) | 0 | (444) | 0 | 0 | (4,681) |
| Depreciation charge | (2,631) | (693) | (631) | 0 | (56) | 0 | 0 | (4,011) |
| Depreciation written out to | | | | | | | | |
| - The Revaluation Reserve | 2,607 | 477 | 0 | 0 | 0 | 0 | 0 | 3,084 |
| - The Provision of Services | 24 | 216 | 0 | 0 | 0 | 0 | 0 | 240 |
| **As at 31 March 2019** | **0** | **0** | **(4,868)** | **0** | **(500)** | **0** | **0** | **(5,368)** |
| **Net Book Value at 31 March 2019** | **176,440** | **50,217** | **6,026** | **5,147** | **1,006** | **2,037** | **2,040** | **242,913** |

## 11. Property, Plant and Equipment (continued)

### Depreciation

The following useful economic lives and depreciation rates have been used in the calculation of depreciation:

| Asset Classification | Basis of Depreciation |
|---|---|
| Council Dwellings | Residual lives based on total life of between 40-60 years but with a minimum residual life of 20 years to reflect enhancements. |
| Land | Not depreciated. |
| Operational Buildings | Residual lives provided by the valuer in report of 31st March 2020. Depreciation is based upon the updated residual lives of revalued properties. |
| Vehicles, Plant and Equipment | Based on expected lives of the asset. |
| Infrastructure Assets | Depreciated over a 40 year life. |
| Community Assets | Not depreciated as these are land assets. |
| Intangible Assets | Amortised over useful life (e.g. software over 5 years). |
| Heritage Assets | Not depreciated as have indefinite life. |
| Surplus Assets | Not depreciated. |

### Capital Commitments

Currently being Finalised

### Revaluations

The freehold and leasehold properties, which comprise the Council's property portfolio, are revalued by Wilks Head and Eve LLP of 6th Floor, Fairgate House, 78 New Oxford Street, London, WC1A 1HB. The valuations are carried out in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors and the government specifications relating to the Housing Revenue Account.

A desktop valuation of Council Properties was undertaken by Wilks Head and Eve LLP as at 31st March 2020. The valuation of Council dwellings used beacon values to determine the total valuation.

Properties regarded as operational were valued on the basis of open market value for the existing use. Where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost basis was used.

## 12. Heritage Assets

Heritage assets are those that are held and maintained principally for their contribution to knowledge and culture. They have historical, artistic, technological, geophysical or environmental qualities. All assets are deemed to have indefinite useful economic lives.

| | 2019/20<br>£'000 | 2018/19<br>£'000 |
|---|---|---|
| Opening Balance | 121 | 121 |
| **Closing Balance** | **121** | **121** |

## 13. Intangible Assets

The Council accounts for software as Intangible Assets, to the extent that the software is not integral part of a particular IT system and accounted for as part of a hardware item.

The Intangible Assets included on the Balance Sheet relate to both purchased licences and internally generated software. All Intangible Assets are given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful life assigned to the major software suites used by the Council is 5 years.

The carrying amount of Intangible Assets is amortised on a straight-line basis. The amortisation of £0.231 million charged to revenue in 2019/20 was charged to IT Administration cost centres and then absorbed as an overhead across all the service headings in the net expenditure of respective services.

The movement in Intangible Asset balances during the year is as follows:

| | 2019/20<br>£'000 | 2018/19<br>£'000 |
|---|---|---|
| Opening Balance | | |
| Gross carrying amounts | 1,954 | 1,795 |
| Accumulated amortisation | (1,308) | (1,108) |
| **Net carrying amount – Opening Balance** | **646** | **687** |
| | | |
| Additions | 232 | 158 |
| Amortisation for the period | (231) | (199) |
| **Net carrying amount – Movements in Year** | **1** | **(41)** |
| | | |
| Closing Balance | | |
| Gross Carrying amounts | 2,185 | 1,954 |
| Accumulated amortisation | (1,538) | (1,308) |
| **Net carrying amount - Closing Balance** | **647** | **646** |

## 14. Assets Held for Sale

International Reporting Standard 5 requires Non-Current Assets Held for Sale and Discontinued Operations to be reported separately in the balance sheet. The Council has only one asset that meets the definition of Assets Held for Sale i.e. the Middlefield Lane former depot site and has been valued at lower of market value less costs.

| | 2019/20 £000's | 2018/19 £000's |
|---|---|---|
| Opening Balance | 0 | 1,800 |
| Assets Newly Classified | 1,100 | 0 |
| Revaluations / (Impairments) | | |
| - Recognised in the Revaluation Reserve | 0 | 0 |
| - Recognised in Provision of Services | 0 | 0 |
| Sale of assets | 0 | (1,800) |
| Closing Balance | **1,100** | **0** |

## 15. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents (split across current assets and current liabilities) is made up as follows:

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Cash held by the Council | 1 | (0) |
| Bank Current Accounts | 50 | (186) |
| Short-term deposits with Building Society/Banks | 4,410 | 3,357 |
| | **4,461** | **3,171** |

## 16. Investments

The Council's investments are detailed below:

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Other Short Term Investments (< 1 Year) | 12,930 | 16,400 |
| Long Term Investments ( > 1 Year) | 0 | 0 |
| **Total Investments** | **12,930** | **16,400** |

## 17. Long Term Receivables

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| North West Leicestershire District Council | 90 | 97 |
| Hinckley Museum | 4 | 4 |
| Car Loans to Employees | 12 | 7 |
| Salary Sacrifice | 3 | 3 |
| **Total Long Term Receivables** | **109** | **111** |

## 18. Short Term Receivables

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Car Loans to Employees | 4 | 7 |
| Salary Sacrifice | 12 | 10 |
| Rail Season Ticket Loan | 1 | 1 |
| Central Government Bodies | 953 | 320 |
| Other Local Authorities | 751 | 676 |
| Housing Rent | 1,054 | 1,195 |
| Sundry Debtors | 1,559 | 1,995 |
| Council Tax, Community Charge and NNDR * | 663 | 444 |
| Prepayments | 625 | 559 |
| Provision for Doubtful Debts | (1,571) | (1,477) |
| **Total Short Term Receivables** | **4,052** | **3,730** |

Details on amortised cost and fair value can be found in Financial Instruments (Note 37)

## 19. Short Term Payables

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| *Short Term Payables* | | |
| Section 106 | 275 | 1,017 |
| Inland Revenue | 2 | 0 |
| Other Local Authorities | 3,527 | 2,427 |
| Deferred Income – Green Bins | 0 | 202 |
| Housing Rents | 172 | 148 |
| Regional Growth Funding | 0 | 0 |
| Sundry Creditors | 3,196 | 2,952 |
| Bus Station – Compulsory Purchase Order | 99 | 99 |
| Central Government Bodies | 1,823 | 914 |
| Council Tax and National Non Domestic Rates * | 874 | 1,926 |
| **Total Short Term Payables** | **9,968** | **9,685** |

## 19. Short and Long Term Payables *(continued)*

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| *Long Term Payables* | | |
| Section 106 | 1,126 | 528 |
| Other Long Term Payables | 70 | 70 |
| **Total Long Term Payables** | **1,196** | **598** |
| | | |
| **Total Payables** | **11,164** | **10,283** |

## 20. Short Term Provisions

**2019/20**

| | Capital Cost of Early Retirement Provision £'000 | Planning Appeal Provision £'000 | Business Rate Appeals Provision £'000 | Total £'000 |
|---|---|---|---|---|
| Balance at 1 April 2019 | 9 | 46 | 1,353 | **1,408** |
| Additional provisions arising in the year | 0 | 153 | (391) | **(238)** |
| Amounts used during the year | (5) | (46) | (200) | **(251)** |
| **At 31 March 2020** | **4** | **153** | **762** | **919** |

**2018/19**

| | Capital Cost of Early Retirement Provision £'000 | Planning Appeal Provision £'000 | Business Rate Appeals Provision £'000 | Total £'000 |
|---|---|---|---|---|
| Balance at 1 April 2018 | 13 | 10 | 1,185 | **1,208** |
| Additional provisions arising in the year | 0 | 46 | 380 | **426** |
| Amounts used during the year | (4) | (10) | (212) | **(226)** |
| **At 31 March 2019** | **9** | **46** | **1,353** | **1,408** |

The Council creates provisions in order to recognise liabilities of uncertain timing or amount. They are recognised when the Council has a present legal or constructive obligation as a result of past events, where it is more likely than not, that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

The Council currently operates three provisions, details of which are set out below:

- Capital Cost of Early Retirement –Where there is a retirement due to reasons other than ill health retirement the Council is required to make a payment to the Pension Fund to cover the value of the strain. Whilst the liability needs to be recognised immediately. This provision represents the unexpended amount of the liability.

## 20. Short Term Provisions (continued)

- Planning Appeals – Where planning appeal hearings or judicial review dates are known as at the year end and legal advisors deem that costs are likely to be awarded as a result of this process; a provision is made for an estimate of these costs.
- Business Rate Appeals – Under Business Rates Retention, the Council is required to make provisions for refunding ratepayers who have appealed against the rateable value of their property on the rating list and may be successful. This estimate is based on an analysis of the Valuation Office Agency (VOA) listings and is provided by an external advisor. The timing of these appeals is dependent on the VOA. In accordance with Business Rates Retention guidance, 40% of the total provision is attributable to the billing authority with the remainder being allocated to major preceptors and central Government.

## 21. Other Long term Liabilities

Currently being Finalised

## 22. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement. A further analysis of earmarked reserves are contained within note 7.

## 23. Unusable Reserves

The Council has a number of reserves which are used for accounting purposes and cannot be used for the provision of services. The balances of these reserves are:

| | Balance at 31 March 2020 | Movements in Year | Balance at 31 March 2019 | Movements in Year | Balance at 31 March 2018 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Revaluation Reserve | (10,805) | 2,646 | (13,451) | (2,014) | (11,437) |
| Capital Adjustment Account | (124,464) | (1,461) | (123,003) | 2,389 | (125,392) |
| Pensions Reserve | 35,236 | (8,230) | 43,466 | 9,859 | 33,607 |
| Accumulated Absences Reserve | 117 | 6 | 111 | 7 | 104 |
| Collection Fund Adjustment Account - Council Tax | 46 | 34 | 12 | 52 | (40) |
| Collection Fund Adjustment Account - NNDR | (694) | (726) | 32 | (118) | 150 |
| Financial Instruments Adjustment Account | 3 | 0 | 3 | (5) | 8 |
| **Total Unusable Reserves** | **(100,561)** | **(7,731)** | **(92,830)** | **10,170** | **(103,000)** |

NB – figures in brackets represent credit balances

Revaluation Reserve

The Revaluation Reserve contains the gains arising from increase in the value of Property, Plant and Equipment and Intangible Assets. The balance is reduced when asset with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1st April 2007, the date the reserve was created.

| | 2019/20 | 2018/19 |
|---|---|---|
| | £'000 | £'000 |
| **Balance at 1 April** | **(13,451)** | **(11,437)** |
| Upward Revaluation of Assets | (2,728) | (5,527) |
| Downward Revaluation of Assets | 5,135 | 2,212 |
| Accumulated gains on assets sold or scrapped / written off to the Capital Adjustment Account | 0 | 1,122 |
| Difference between fair value and historic cost depreciation | 238 | 179 |
| **Balance at 31 March** | **(10,805)** | **(13,451)** |

## 23. Unusable Reserves (continued)

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement. The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

| | **2019/20<br>£'000** | **2018/19<br>£'000** |
|---|---|---|
| **Balance at 1 April** | **(123,002)** | **(125,392)** |
| *Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:* | | |
| Charges for depreciation and impairment of non-current assets | 4,627 | 4,211 |
| Revaluation losses / (gains) on Property Plant and Equipment | 620 | 2,774 |
| Revenue Expenditure Funded from Capital under Statute | 1,107 | 1,465 |
| 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 | 1,893 | 3,587 |
| | 8,246 | 12,037 |
| Write out of revaluation on disposal; property, plant and equipment | (238) | (1,301) |
| | 8,008 | 10,736 |
| *Capital financing applied in the year:* | | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | (811) | (465) |
| Use of the Major Repair Reserve to finance new capital expenditure | (3,009) | (3,000) |
| Capital grants and contributions credited to the Comprehensive Income and Expenditure statement that have been applied to capital financing | (436) | (434) |
| Application of grants to capital financing from the Capital Grants Unapplied Account | (350) | (226) |
| Statutory provisions for financing of capital investment charged against the General Fund and HRA balances | (1,298) | (1,194) |
| Capital expenditure charged against the General Fund and HRA balances | (3,565) | (3,028) |
| | (1,461) | 2,389 |
| **Balance at 31 March** | **(124,464)** | **(123,002)** |

## 23. Unusable Reserves (continued)

Pension Fund Reserve

This reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits 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. The arrangements ensure that funding will have been set aside by the time the benefits come to be paid.

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| **Balance at 1 April** | **43,466** | **33,607** |
| Actuarial (gains) or losses on pension assets and liabilities | (11,226) | 6,625 |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | 5,597 | 5,629 |
| Employers pension contribution payable in the year | (2,601) | (2,395) |
| **Balance at 31 March** | **35,236** | **43,466** |

Accumulated Absences Adjustment Account

This account absorbs the differences that would otherwise arise on General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| **Balance at 1 April** | **111** | **104** |
| Settlement or cancellation of accrual made at the end of the preceding year | (111) | (104) |
| Amounts accrued at the end of the current year | 117 | 111 |
| **Balance at 31 March** | **117** | **111** |

## 23. Unusable Reserves (continued)

Collection Fund Adjustment Account

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

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| **Balance at 1 April** | **44** | **110** |
| 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 | 34 | 52 |
| Amount by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements | (726) | (118) |
| **Balance at 31 March** | **(648)** | **44** |

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

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| **Balance at 1 April** | **2** | **8** |
| 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 | (5) |
| **Balance at 31 March** | **2** | **3** |

## 24. Cash Flow Statement – Operating Activities

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| **(3,116)** | **Net Surplus or (Deficit) on the Provision of Services** | **(1,661)** |
| | **Adjustments for non cash movements:** | |
| 4,210 | Depreciation & Amortisation | 4,626 |
| 2,775 | (Revaluation) / Impairment | 620 |
| 3,234 | Change in Pension Liability | 2,996 |
| 287 | Increase / (Decrease) in Payables | 2,174 |
| 250 | (Increase) / Decrease in Receivables | (1,566) |
| (1) | (Increase) / Decrease in Inventories | (8) |
| 199 | Increase / (Decrease) in Provisions | (489) |
| **10,954** | **Sub-Total Adjustments for Non-cash Movements** | **8,353** |
| | **Adjustment for items included in the net (deficit) / surplus on the provision of services that are investing and finance activities:** | |
| (540) | Profit upon sale of assets | (442) |
| (319) | Movement in Collection Fund Payables & Receivables | 1,271 |
| (258) | Movement in Capital Payables | 13 |
| **6,721** | **Total Cash (inflow)/outflow from operating activities** | **7,534** |

The cash flow for operating activities includes the following items:

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Interest Received (See note 9) | (270) | (180) |
| Interest Paid (See note 9) | 3,028 | 2,984 |

## 25. Cash Flow Statement – Investing Activities

The cash flow for investing activities includes the following items:

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Purchase of short-term and long-term investments | (36,030) | (55,218) |
| Purchase of property, plant and equipment, investment property and intangible assets | (7,421) | (6,094) |
| Proceeds from sale of property, plant and equipment, investment property and intangible assets | 2,335 | 4,127 |
| Proceeds from short-term and long-term investments | 39,500 | 48,618 |
| **Net cash flows from investing activities** | **(1,616)** | **(8,567)** |

## 26. Cash Flow Statement – Financing Activities

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Cash receipts from short and long term borrowing | 8,700 | 0 |
| Cash payments for the reduction of outstanding liabilities relating to Finance Leases | (416) | (514) |
| Repayment of short and long term borrowing | (11,641) | 0 |
| Other payments not in above | (1,271) | 319 |
| **Net cash flows from financing activities** | **(4,628)** | **(195)** |

## 27. Trading Operations

The Council operated the following trading services in 2019/20 for which outturn income and expenditure was as shown in the table below:

- Markets – the operation of a market in Hinckley Town Centre.
- Industrial Estates – the provision of factory units for rental principally aimed at small businesses.
- Grounds Maintenance DSO – an internal business unit that provides grounds maintenance services to all parts of the Council.
- Housing Repairs DSO – an internal business unit that provides housing repair services to the Borough Council.

| | **2019/20 Income £'000** | **2019/20 Expenditure £'000** | **2019/20 (Surplus)/ Deficit £'000** | **2018/19 (Surplus)/ Deficit £'000** |
|---|---|---|---|---|
| Markets | (85) | 192 | 107 | 57 |
| Industrial Estates | (789) | 338 | (451) | (425) |
| Grounds Maintenance DSO | (1,084) | 1,133 | 49 | (15) |
| Housing Repairs DSO | (1,609) | 1,828 | 219 | 234 |
| External Painting | (143) | 136 | (7) | 19 |
| **Net Surplus on ordinary activities** | **(3,710)** | **3,627** | **(83)** | **(130)** |
| Property Revaluation | 0 | 10 | 10 | 5 |
| **Net (surplus)/deficit reported in Financing and Investment Income and Expenditure (Note 9)** | **(3,710)** | **3,637** | **(73)** | **(125)** |

## 28. Members' Allowances

Total members' allowances paid in 2019/20 were £278,368 (2018/19 - £251,011) and £5,919 were paid for members' expenses (2018/19 – £4,977).

## 29. External Audit Costs

In 2019/20 Hinckley and Bosworth Borough Council incurred the following fees relating to external audit and inspection:

| | **2019/20 £'000** | **2018/19 £'000** |
|---|---|---|
| External Audit Services | 38 | 38 |
| Certification of Grant Claims and Returns | 17 | 16 |
| Non Audit Works | 6 | 3 |
| Audit Refund | (4) | 0 |
| **Total Fees Payable** | **57** | **57** |

All non audit work undertaken has been reported to Audit Committee as "those charged with governance".

## 30. Grant Income

| | 2019/20 | 2018/19 |
|---|---|---|
| | **£'000** | **£'000** |
| **Credited to Taxation and Non Specific Grant Income:** | | |
| Revenue Support Grant | 0 | 437 |
| Section 31 Grant | 1,490 | 1,289 |
| New Homes Bonus | 2,271 | 2,571 |
| New Burdens Grant | 0 | 39 |
| **Total** | **3,761** | **4,336** |
| | | |
| **Credited to Services:** | | |
| Disabled Facilities | 331 | 358 |
| Waste and Recycling | 57 | 75 |
| Syrian refugees | 0 | 2 |
| Homelessness | 127 | 169 |
| Housing Benefit Administration | 175 | 192 |
| Benefit Reimbursements | 11,872 | 13,270 |
| Council Tax Admin Grant | 84 | 101 |
| Council tax Support Grant | 0 | 0 |
| Housing Assistance Grant | 41 | 41 |
| Developer Contributions | 301 | 0 |
| Community Safety | 28 | 32 |
| Sports Grants | 141 | 138 |
| Play and Open Space | 10 | 28 |
| Elections | 13 | 14 |
| NNDR Cost of Collection | 125 | 126 |
| Revenue & Benefits Server | 50 | 0 |
| Planning Aid DCLG | 33 | 50 |
| Universal Credit | 0 | 88 |
| New Burdens | 136 | 203 |
| Business Rates Retention | 0 | 0 |
| Works in Default | 202 | 260 |
| Other Government Grant | 7 | 13 |
| S31 Income Street Cleaning | 0 | 20 |
| Other | 14 | 6 |
| **Total** | **13,747** | **15,186** |
| | | |
| **Total Grant Income** | **17,508** | **19,522** |

The council has £24,956 of income held as a capital grants received in advance. Of this, £12,148 relates to private sector housing enforcement, £11,056 relates to a grant from the East Midlands Development Agency and £1,752 relates to waste management. These are yet to be recognised as income.

## 31. Related Party Transactions

Currently being Finalised

## 32. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

| | 2019/20<br>£'000 | 2018/19<br>£'000 |
|---|---|---|
| **Opening Capital Financing Requirement** | **107,291** | **105,154** |
| **Capital Investment** | | |
| Property Plant and Equipment | 7,176 | 8,861 |
| Intangible Assets | 232 | 158 |
| REFCUS | 1,107 | 1,465 |
| **Total Expenditure in Year** | **8,515** | **10,484** |
| **Sources of Finance** | | |
| Application of Usable Capital Receipts | (811) | (465) |
| Application of Capital Grants Contributions/Reserves | (6,924) | (6,253) |
| Capital Financed from Revenue | (1,734) | (1,629) |
| | **(9,469)** | **(8,347)** |
| **Closing Capital Financing Requirement** | **106,337** | **107,291** |
| **Movement in the Year** | **954** | **(2,137)** |
| **Explanation of Movement in the Year** | | |
| Deferred Capital Receipts Written Off | | |
| Unsupported Financial Assistance | (344) | (3,331) |
| Minimum Revenue Provision | 1,298 | 1,194 |
| | **954** | **(2,137)** |

* Restated for £1.016m deferred receipt posted to unusable reserves for prior year payments

## 33. Officers' Remuneration

The number of employees, not including senior staff disclosed separately below, whose remuneration, in the year, including employer's pension contributions, was £50,000 or more in bands of £5,000 were:

| Remuneration Band | 2019/20 Number of employees | 2018/19 Number of employees |
|---|---|---|
| £50,000 - £54,999 | 11 | 6 |
| £55,000 - £59,999 | 4 | 4 |
| £60,000 - £64,999 | 4 | 6 |
| £65,000 - £69,999 | 7 | 0 |
| £70,000 - £74,999 | 0 | 2 |
| £75000 - £79,999 | 1 | 0 |

The following table sets out in detail the remuneration for Senior Officers whose salary is £50,000 or more per year:

| Post holder information (Post title) | Year | Salary (Including fees and allowances) | Expense Allowances | Compensation for loss of Office | Benefits in Kind (e.g. Car Allowance) | Total Remuneration Excluding pension contributions | Pension Contribution | Total Remuneration Including pension contributions |
|---|---|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ | £ | £ |
| Chief Executive (Current) | 2019/20 | 115,588 | 0 | 0 | 0 | 115,588 | 23,580 | 139,168 |
| | 2018/19 | 113,322 | 0 | 0 | 0 | 113,322 | 23,118 | 136,440 |
| Director (Community Services) | 2019/20 | 78,810 | 0 | 0 | 0 | 78,810 | 16,077 | 94,887 |
| | 2018/19 | 77,265 | 0 | 0 | 0 | 77,265 | 15,762 | 93,027 |
| Director (Environment and Planning) | 2019/20 | 59,108 | 0 | 0 | 0 | 59,108 | 12,058 | 71,166 |
| | 2018/19 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Former Director (Environment and Planning) | 2019/20 | 7,203 | | | | 7,203 | 1,469 | 8,672 |
| | 2018/19 | 77,265 | | | | 77,265 | 15,762 | 93,027 |
| Director (Corporate Services) | 2019/20 | 78,810 | 0 | 0 | 0 | 78,810 | 15,181 | 93,991 |
| | 2018/19 | 77,265 | 0 | 0 | 0 | 77,265 | 14,644 | 91,909 |
| Head of Finance | 2019/20 | 67,777 | 0 | 0 | 0 | 67,777 | 13,827 | 81,604 |
| | 2018/19 | 66,448 | 0 | 0 | 0 | 66,448 | 13,555 | 80,003 |

| | 2019/20 | 2018/19 |
|---|---|---|
| Chief Executive | 1 | 1 |

## 33. Officers' Remuneration (continued)

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

| Exit Package Cost Band (Including Special Payments) | Number of Compulsory Redundancies | | Number of Other Departures Agreed | | Total Number of Exit Packages by Cost Band | | Total Cost of Exit Packages in Each Band | |
|---|---|---|---|---|---|---|---|---|
| | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 |
| | | | | | | | £ | £ |
| £0 - £20,000 | 0 | 0 | 1 | 3 | 1 | 3 | 6,174 | 22,522 |
| £20,001 - £40,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £40,001 - £60,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £60,001 - £80,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £80,001 - £100,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | **0** | **0** | **1** | **3** | **1** | **3** | **6,174** | **22,522** |

## 34. Leases

Council as Lessee

**Finance Leases**

The Council has acquired vehicles and office premises under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

| | As at 31 March 2020 £'000 | As at 31 March 2019 £'000 |
|---|---|---|
| Other Land and Buildings | 6,272 | 6,831 |
| Vehicles, Plant, Furniture and Equipment | 2,288 | 2,965 |
| **Total Value** | **8,560** | **9,796** |

## 34. Leases (continued)

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

| | As at 31 March 2020 £'000 | As at 31 March 2019 £'000 |
|---|---|---|
| **Finance Lease Liabilities & Finance Costs of Future Payments** | | |
| Current | 452 | 427 |
| Non Current | 9,162 | 9,556 |
| Finance Costs payable in future years | 10,863 | 10,932 |
| **Minimum Lease Payments** | **20,477** | **20,915** |

| | ***Minimum Lease Payments*** | | ***Finance Lease Liabilities*** | |
|---|---|---|---|---|
| | **31 March 20** | **31 March 19** | **31 March 20** | **31 March 19** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Within one year | 1,057 | 1,057 | 452 | 427 |
| Between one and five years | 4,226 | 4,226 | 2,045 | 1,929 |
| After five years | 15,194 | 15,632 | 7,117 | 7,627 |
| **Total** | **20,477** | **20,915** | **9,614** | **9,983** |

Operating Leases (As Lessor)

The Council acts as a lessor for industrial and commercial units, rented under operating leases. In addition to this the Council commenced a number of license type leases in 2014/15 for rental of space in the Hinckley Hub. The total rental income from the operating leases in 2019/20 was £1,500,459 (£1,501,555 2018/19).

Lease payments due

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Within 1 Year | 1,541 | 1,473 |
| Between 2 and 5 Years | 6,355 | 6,062 |
| Later than 5 Years | 0 | 0 |
| | **7,896** | **7,535** |

## 34. Leases (continued)

Operating Leases (As Lessee)

The Council acquired light commercial vehicles in September 2018/19 on an operating lease. An annual rental charge is paid of £203,722 is paid.

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Within 1 Year | 204 | 202 |
| Between 2 and 5 Years | 509 | 707 |
| Later than 5 Years | 0 | 0 |
| | **713** | **909** |

## 35. Impairment Review

During 2019/20, the Council underwent an impairment review through the following means:

- An external review of the market value of assets by the Council's external valuer; and
- Review of assets for obsolescence by the Council's Estates and Asset Manager

As a result of the above, the Council has recognised a net impairment loss of £0.901 million in the Comprehensive Income and Expenditure Statement split as follows:

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Property Plant and Equipment | 901 | 3,093 |
| | **901** | **3,093** |

## 36. Pensions and Retirement Benefits

Local Authorities are required to recognise the full requirements of International Accounting Standard 19 (IAS 19).

The objectives of IAS 19 are to ensure that:-

a) Financial statements reflect at fair value assets and liabilities arising from an employer's retirement benefit obligations and any related funding;

b) The operating costs of providing retirement benefits to employees are recognised in the accounting period(s) in which the benefits are earned by the employees, and the related finance costs and any other changes in value of the assets and liabilities are recognised in the accounting periods in which they arise; and

c) The financial statements contain adequate disclosure of the cost of providing retirement benefits and the related gains, losses, assets and liabilities.

The accounting entries required under IAS 19 have no impact on the Council Tax liability.

## 36. Pensions and Retirement Benefits (continued)

Participation in Pension Schemes

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

The Council participates in the Local Government Pension Scheme, administered locally by Leicestershire County Council. This is a funded, final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. The Council pays contributions to the Leicestershire County Council Pension Fund, which provides its members with defined benefits related to pay and service.

The pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Leicestershire County Council. Policy is determined in accordance with the Pensions Fund Regulations.

Payments to the Pension Fund

It is budgeted that the Council will pay Leicestershire County Council £2.723 million in employer's pension contributions in the year 2020/21.

Transactions Relating to Retirement Benefits

We recognise the cost of retirement benefits in the Net 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 the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

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

| **Income and Expenditure Account** | **2019/20 £'000** | **2018/19 £'000** |
|---|---|---|
| **Net Cost of Service** | | |
| Current Service Cost | 4,508 | 3,672 |
| Past Service Cost | 0 | 999 |
| Administration Expenses | 21 | 20 |
| | 4,529 | 4,691 |
| **Net Operating Expenditure** | | |
| Pension Interest Costs | 2,694 | 2,651 |
| Expected return on Assets | (1,626) | (1,713) |
| Net Interest Cost | 1,068 | 938 |
| **Total charged to Comprehensive Income and Expenditure Statement** | **5,597** | **5,629** |
| **Statement of Movement on the General Fund Balance** | | |
| (Reversal of) Net Charges Made for Retirement Benefits in Accordance with IAS19 | (5,597) | (5,629) |
| **Actual Amount Charged Against General Fund Balance for Pensions in Year** | **2,601** | **2,395** |

## 36. Pensions and Retirement Benefits (continued)

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, actuarial losses of £11.226 million (2018/19 gains of £6.625 million) were included in the Comprehensive Income and Expenditure Statement. The cumulative amount of actuarial losses recognised in the Comprehensive Income and Expenditure Statement to 31st March 2020 is £42.367 million (£31.141 million to 31st March 2019).

| **Balance Sheet Recognition** | **31 March 2020 £'000** | **31 March 2019 £'000** |
|---|---|---|
| Present value of the defined benefit obligation | 98,396 | 110,810 |
| Fair value of plan assets | (63,160) | (67,344) |
| **Net liability arising from defined benefit obligation** | **35,236** | **43,466** |

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

| | **2019/20 Unfunded £'000** | **2019/20 Funded £'000** | **2018/19 Unfunded £'000** | **2018/19 Funded £'000** |
|---|---|---|---|---|
| Fair value of plan assets at 1 April | 0 | 67,344 | 0 | 63,214 |
| Interest on plan assets | 0 | 1,626 | 0 | 1,713 |
| Remeasurements (assets) | | (6,313) | 0 | 1,829 |
| Employer contributions | 86 | 2,515 | 87 | 2,308 |
| Member contributions | 0 | 675 | 0 | 640 |
| Benefits/transfers paid | (86) | (2,687) | (87) | (2,360) |
| **Fair Value of plan assets as at 31 March** | **0** | **63,160** | **0** | **67,344** |

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

| | **2019/20 Unfunded £'000** | **2019/20 Funded £'000** | **2018/19 Unfunded £'000** | **2018/19 Funded £'000** |
|---|---|---|---|---|
| Benefit obligation at 1 April | 1,395 | 109,415 | 1,358 | 95,463 |
| Current service cost | 0 | 4,508 | 0 | 3,672 |
| Past Service Cost | 0 | 0 | 0 | 999 |
| Interest on pension liabilities | 0 | 2,694 | 0 | 2,651 |
| Member contributions | 0 | 675 | 0 | 640 |
| Remeasurements (liabilities) | (98) | (17,441) | 124 | 8,330 |
| Benefits/transfers paid | (86) | (2,687) | (87) | (2,360) |
| Administration expenses | 0 | 21 | 0 | 20 |
| **Benefit obligation as at 31 March** | **1,211** | **97,185** | **1,395** | **109,415** |

## 36. Pensions and Retirement Benefits (continued)

Local Government Pension Scheme Assets comprised:

| **Asset Category** | **31 March 2020 £'000** | **31 March 2019 £'000** |
|---|---|---|
| Cash & Cash Equivalents | 1,892 | 2,018 |
| **Equity Instruments** | | |
| Other | 1,100 | 1,173 |
| **Bonds** | | |
| Government | 5,348 | 5,702 |
| Other | 818 | 872 |
| **Property** | | |
| UK Property | 4,721 | 5,034 |
| **Private Equity** | | |
| All | 2,912 | 3,105 |
| **Other Investment Funds** | | |
| Equities | 25,367 | 27,047 |
| Bonds | 2,669 | 2,845 |
| Hedge Funds | 5 | 6 |
| Commodities | 2,234 | 2,382 |
| Infrastructure | 3,322 | 3,542 |
| Other | 12,852 | 13,704 |
| Derivatives | (80) | (86) |
| **Total** | **63,160** | **67,344** |

Scheme History

| **Scheme History** | **31 March 2020** | **31 March 2019** | **31 March 2018** | **31 March 2017** | **31 March 2016** |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Present Value of Scheme Liabilities | (98,396) | (110,810) | (96,821) | (94,497) | (76,483) |
| Fair Value of Scheme Assets | 63,160 | 67,344 | 63,214 | 60,254 | 48,813 |
| **Net (Liability)/ Asset** | **(35,236)** | **(43,466)** | **(33,607)** | **(34,243)** | **(27,670)** |

## 36. Pensions and Retirement Benefits (continued)

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. The County Council's fund liabilities have been assessed by the actuaries Hymans Robertson. The principal assumptions used by the actuary have been:

| **Assumptions as at :** | **31 March 2020 Per Annum** | **31 March 2019 Per Annum** |
|---|---|---|
| Pension Increase Rate | 1.90% | 2.50% |
| Rate of Increase in Salaries | 2.40% | 3.50% |
| Rate for Discounting Scheme Liabilities | 2.30% | 2.40% |

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting year. It assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The method and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous year.

| **Changes in assumptions at 31 March 2020** | **Approximate % increase to Employer Liability** | **Approximate monetary amount (£'000)** |
|---|---|---|
| 0.5% decrease in Real Discount Rate | 10% | 9,668 |
| 0.5% increase in the Salary Increase Rate | 1% | 1,043 |
| 0.5% increase in the Pension Increase Rate | 9% | 8,537 |

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next few years. The contribution rate is determined by the County Fund's Actuary based on a triennial actuarial valuation. A full valuation was carried out as at 31st March 2020. A roll forward valuation is performed by the actuary in the years between full valuations.

The scheme takes into account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2015 (or service after 31 March 2016 for other main existing public service pension schemes in England & Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

## 37. Financial Instruments

**Financial Instruments Balances**

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

| | Non-Current | | Current | |
|---|---|---|---|---|
| | **31 March 2020 £'000** | **31 March 2019 £'000** | **31 March 2020 £'000** | **31 March 2019 £'000** |
| **Borrowings** | | | | |
| Financial liabilities | 73,011 | 75,952 | 0 | 0 |
| Accrued Interest | 0 | 0 | 0 | 75 |
| Financial liabilities at amortised cost (1) | **73,011** | **75,952** | **0** | **81** |
| **Total included in borrowings** | **73,011** | **75,952** | **0** | **81** |
| **Other Liabilities** | | | | |
| Finance lease liabilities | 9,162 | 9,556 | 452 | 427 |
| **Total other liabilities** | **9,162** | **9,556** | **452** | **427** |
| **Payables** | | | | |
| Financial liabilities at amortised cost (1) | 1,196 | 598 | 9,094 | 7,759 |
| **Total payables** | **1,196** | **598** | **9,094** | **7,759** |
| **Investments** | | | | |
| Loans and receivables (principal amount) | 0 | 0 | 12,930 | 16,400 |
| + Accrued interest | 0 | 0 | 65 | 51 |
| Loans and receivables at amortised cost (1) | 0 | 0 | 12,995 | 16,451 |
| **Total investments** | **0** | **0** | **12,995** | **16,451** |
| **Receivables** | | | | |
| Loans and receivables | 109 | 111 | 4,052 | 2,727 |
| **Total receivables** | **109** | **111** | **4,052** | **2,727** |

## 37. Financial Instruments (continued)

***Financial Assets***

| | Non-Current | | | | Current | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Investments | | Debtors | | Investments | | Debtors | | Total |
| | 31st March 2019 | 31st March 2020 | 31st March 2019 | 31st March 2020 | 31st March 2019 | 31st March 2020 | 31st March 2019 | 31st March 2020 | 31st March 2020 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fair value through Profit and Loss | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amortised Cost | 0 | 0 | 111 | 109 | 16,400 | 12,930 | 2,727 | 2,764 | 15,803 |
| **Total Financial Assets** | **0** | **0** | **111** | **109** | **16,400** | **12,930** | **2,727** | **2,764** | **15,803** |
| Non-Financial Assets | 0 | 0 | 0 | 0 | 0 | 0 | 1,003 | 1,288 | 1,288 |
| **Total** | **0** | **0** | **111** | **109** | **16,400** | **12,930** | **3,730** | **4,052** | **17,091** |

**Financial Liabilities**

| | Non-Current | | | | Current | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Borrowings | | Creditors | | Finance Lease | | Creditors | | Total |
| | 31st March 2019 | 31st March 2020 | 31st March 2019 | 31st March 2020 | 31st March 2019 | 31st March 2020 | 31st March 2019 | 31st March 2020 | 31st March 2020 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fair value through Profit and Loss | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amortised Cost | (85,508) | (82,173) | (598) | (1,196) | (427) | (452) | (7,759) | (9,094) | (92,915) |
| **Total Financial Liabilities** | **(85,508)** | **(82,173)** | **(598)** | **(1,196)** | **(427)** | **(452)** | **(7,759)** | **(9,094)** | **(92,915)** |
| Non-Financial Liabilities | 0 | 0 | 0 | 0 | 0 | 0 | (1,926) | (874) | (874) |
| **Total** | **(85,508)** | **(82,173)** | **(598)** | **(1,196)** | **(427)** | **(452)** | **(9,685)** | **(9,968)** | **(93,789)** |

**Note 1 –** Under accounting requirements the carrying value of the financial instrument value is shown in the Balance Sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

All financial assets held as loans and receivables in 2019/20 have been classified to amortised cost.

## 37. Financial Instruments (continued)

**Financial instruments Gains/Losses**

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

| **2019/20** | **Liabilities measured at amortised cost** | **Loans and Receivables** | **Total** |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| Interest Expense | 3,028 | 0 | 3,028 |
| Interest Income | 0 | (270) | (270) |
| **Net (gain)/loss for the year** | **3,028** | **(270)** | **2,758** |

| **2018/19** | **Liabilities measured at amortised cost** | **Loans and Receivables** | **Total** |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| Interest Expense | 2,949 | 0 | 2,949 |
| Interest Income | 0 | (180) | (180) |
| **Net loss/(gain) for the year** | **2,949** | **(180)** | **2,769** |

**Fair value of Assets and Liabilities carried at Amortised Cost**

Financial liabilities and financial assets represented by loans and receivables are carried on the Balance Sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures.
- For loans receivable, prevailing benchmark market rates have been used to provide the fair value.
- No early repayment or impairment is recognised.
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable, the fair value is taken to be the carrying amount or the billed amount.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

## 37. Financial Instruments (continued)

The fair values calculated are as follows:

**Financial Liabilities**

| | 31 March 2020 | | 31 March 2019 | |
|---|---|---|---|---|
| | **Carrying amount £'000** | **Fair value £'000** | **Carrying amount £'000** | **Fair value £'000** |
| PWLB debt | 73,011 | 80,952 | 75,952 | 86,688 |
| Short term creditors | 0 | 0 | 7,759 | 7,759 |
| Short term finance lease liability | 452 | 452 | 427 | 427 |
| Long term creditors | 0 | 0 | 598 | 598 |
| Long term finance lease liability | 9,162 | 9,162 | 9,556 | 9,556 |
| **Total Liabilities** | **82,625** | **90,566** | **94,292** | **105,028** |

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

The fair values for loans and receivables have been determined by reference to similar practices, as above, which provide a reasonable approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each Balance Sheet date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

However, the authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the [additional/reduced] interest that the authority will pay as a result of its PWLB commitments for fixed rate loans, is to compare the terms of these loans with the new borrowing rates available from the PWLB.

**Financial Assets**

| | 31 March 2020 | | 31 March 2019 | |
|---|---|---|---|---|
| | **Carrying amount £'000** | **Fair value £'000** | **Carrying amount £'000** | **Fair value £'000** |
| Short term investments | 12,930 | 12,930 | 16,400 | 16,400 |
| Short term debtors | 2,764 | 2,764 | 2,727 | 2,727 |
| Long term debtors | 109 | 109 | 111 | 111 |
| **Total Assets** | **15,803** | **15,803** | **19,238** | **19,238** |

## 37. Financial Instruments (continued)

Disclosure of nature and extent of risk arising from Financial Instruments

**Key risks**

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

- **Credit risk** - the possibility that other parties might fail to pay amounts due to the Council.
- **Liquidity risk** - the possibility that the Council might not have funds available to meet its commitments to make payments.
- **Re-financing risk and maturity risk** - the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- **Market risk** - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

**Overall procedures for managing risk**

The Council's overall risk management procedures focus on the unpredictability of financial markets and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- By formally adopting the requirements of the CIPFA Treasury Management Code of Practice.
- By the adoption of a Treasury Policy Strategy and treasury management clauses within its financial regulations/standing orders/constitution.
- By approving annually in advance prudential and treasury indicators for the following three years limiting:
  - the Council's overall borrowing;
  - its maximum and minimum exposures to fixed and variable rates;
  - its maximum and minimum exposures to the maturity structure of its debt; and
  - Its maximum annual exposures to investments maturing beyond a year.
- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting Budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

## 37. Financial Instruments (continued)

The annual Treasury Management Strategy for 2019/20 to 2022/23 which incorporates the Prudential Indicators was approved by Council on 25 February 2020 and is available on the Council website. The key points within the Strategy were:

- The Authorised Limit for 2019/20 was set at £106,142 million. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £103,142 million. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at £103,142 million.

These policies are implemented by the Section 151 Officer and the Finance Section. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed annually and approved by Council as part of the budget process.

**Credit risk**

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

This risk is minimised through the Annual Investment Strategy element of the Treasury Management Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Details of the Investment Strategy can be found on the Council's website. The key areas of the Investment Strategy are that the minimum criteria for investment counterparties include:

- Credit ratings of Short Term of F1, Long Term A, (Fitch or equivalent rating), with the lowest available rating being applied to the criteria.
- Guaranteed Banks with suitable sovereign support;
- Building societies which meet the required credit ratings and/or hold assets in excess of £500m.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies 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 inability to recover applies to all of the Council's deposits, but there was no evidence at the 31st March 2020 that this was likely to crystallise.

Due to lack of counterparties in 2019/20 £1 million was invested over the £7 million limit for 83 days. This was allowed for in the Treasury Report taken to Council in February 2020. Council does not expect any losses from non-performance by any of it's counterparties in relation to deposits and bonds.

## 37. Financial Instruments (continued)

The Council does not generally allow credit for its customers, such that the majority of the general debtor balance is within its due date for payment. The past due amount can be analysed by age as follows:

| | General Receivables 31 March 2020 £000's | General Receivables 31 March 2019 £000's |
|---|---|---|
| <3 months | 1,010 | 1,068 |
| 3 to 6 months | 35 | 51 |
| 6 months to 1 year | 175 | 16 |
| >1year | 373 | 288 |
| | **1,593** | **1,423** |

Collateral – During the reporting year the Council held no collateral as security.

**Liquidity risk**

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Council deposits of £4.410m in money market accounts at 31st March 2020 were being held for a period of 3 months or less and therefore have been classified as cash and cash equivalents in line with the Code.

**Refinancing and Maturity risk**

The Council maintains a debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

There are no expected credit losses (ECL) apart from on sundry debtors and rents. These ECL are non-material.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters.

## 37. Financial Instruments (continued)

This includes:

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt.
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rate borrowings maturing in each year:

| Maturity Analysis | Approved minimum limits | Approved maximum limits | Actual 31 March 2020 £'000 | Actual 31 March 2019 £'000 |
|---|---|---|---|---|
| Less than 1 year | 0% | 100% | 2,941 | 2,941 |
| Between 1 and 2 years | 0% | 100% | 2,941 | 2,941 |
| Between 2 and 5 years | 0% | 100% | 8,824 | 8,824 |
| Between 5 and 10 years | 0% | 100% | 14,707 | 11,766 |
| More than 10 years | 0% | 100% | 43,597 | 49,480 |
| **Total** | **0%** | **100%** | **73,011** | **75,952** |

**Market risk**

Interest rate risk - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances).
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise.
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

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

## 37. Financial Instruments (continued)

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's Prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The finance team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

The risk of interest rate loss is partially mitigated by Government grant payable on financing costs. If all interest rates had been 1% higher or lower (with all other variables held constant) the financial effect would be nil as all the Council's borrowing and investments are fixed rate.

## 38. Contingent Liabilities

Currently being Finalised

## 39. Contingent Asset

**VAT on Postage Costs**

The Council has submitted a claim to the High Court and HMRC to reclaim VAT on postage costs incurred. Both claims were made via a third party in 2014/15 but it is not known when these will be heard or concluded. The total value of both claims is £443,021 plus interest.

## 40. Revenues and Benefits Partnership

The Council has entered into a partnership with North West Leicestershire and Harborough District Councils to provide shared administration of revenues and benefits. The partners have an agreement in place for funding these services which has been running since 6 April 2011**.** The Partnership is currently hosted by Hinckley and Bosworth Borough Council on behalf of the other partners.

All partners contribute towards the operation of the partnership which is classified as a Jointly Controlled Operation. On this basis, each partner accounts for their share of contributions within their Statement of Accounts. The funding provided by Hinckley and Bosworth Borough Council in 2019/20 was £1.294 million (2018/19 £1.341 million).

Each partner provides equipment and software for the operation of the Partnership. These remain the property of the partners. Those assets used by the Council for the Partnership are included in the Balance Sheet and treated in line with the relevant accounting policies.

# Additional financial Statements

THE Housing Revenue Statement
THE Collection Fund

## Housing Revenue Account 2019/20

The Housing Revenue Account Income and Expenditure Statement shows the economic cost in the year of providing the landlord's housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The difference between the accounting cost and the funding cost is adjusted in the Movement on the Housing Revenue Account Statement.

## Housing Revenue Statement 2019/20

| 2018/19 £'000 | Income and Expenditure Statement | 2019/20 £'000 |
|---|---|---|
| | **Income** | |
| (12,670) | Dwelling Rents (gross) | (12,486) |
| (83) | Non-dwelling Rents (gross) | (81) |
| (621) | Charges for Services and Facilities | (663) |
| (154) | Contribution Towards Expenditure | (180) |
| **(13,528)** | **Total Income** | **(13,410)** |
| | **Expenditure** | |
| 2,822 | Repairs and Maintenance | 2,839 |
| 3,495 | Supervision and Management | 3,620 |
| 303 | Rents, Rates, Taxes and other charges | 286 |
| 2,696 | Depreciation and impairments of fixed assets | 2,699 |
| 1,618 | (Gain)/ Loss on Revaluation | 178 |
| 3 | Debt Management Costs | 2 |
| 163 | Contribution to the Bad Debt Provision | 114 |
| **11,100** | **Total Expenditure** | **9,738** |
| **(2,428)** | **Net Cost of HRA Services per authority Comprehensive Income & Expenditure Account** | **(3,672)** |
| 2,088 | Interest payable and similar charges | 2,088 |
| (100) | Interest and investment income | (138) |
| (312) | (Gain)/ Loss on sale of HRA non-current assets | (407) |
| **(752)** | **(Surplus) or deficit for the year on HRA services** | **(2,129)** |
| | **Items included in the HRA I&E but excluded from the Movement on the HRA Balance for the year** | |
| (772) | Net charges made for retirement benefits in accordance with IAS 19 | (767) |
| 312 | Gain/ (Loss) on sale of HRA fixed assets | 407 |
| | **Items not included in the HRA I&E but included from the Movement on the HRA Balance for the year** | |
| (1,618) | (Gain)/ Loss on Revaluation | (178) |
| 3,009 | Transfer from Major Repairs Reserve | 3,009 |
| (2,696) | Depreciation of Non-Current Assets | (2,699) |
| (39) | Transfer to/from Housing Repairs Account | (76) |
| 380 | Employers Contributions to the Leicestershire County Council pension scheme & retirement benefits | 426 |
| 2,120 | Contribution to/(from) Reserves | 1,902 |
| 0 | Contribution to/(from) Capital Financing | 0 |
| (1) | Movements regarding employee benefits accruals | (1) |
| **695** | **Net additional amount required by statute to be debited or (credited) to the HRA balance for the year** | **2,023** |
| **(57)** | **(Surplus)/Deficit for the Year** | **(106)** |
| **(728)** | **Balance Brought Forward 1 April** | **(785)** |
| **(785)** | **Balance Carried forward 31 March** | **(891)** |

## Collection Fund

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing Authority in relation to Non-Domestic Rates and the Council Tax, and illustrates the way in which these have been distributed to preceptors and the billing Authority. The accounts of the fund have been prepared on an accruals basis.

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| | **INCOME** | |
| (64,775) | Income from Council Tax | (68,444) |
| (32,472) | Income Collectable from Business Ratepayers | (34,300) |
| **(97,247)** | **Total Income** | **(102,744)** |
| | **EXPENDITURE** | |
| 64,273 | Precepts and Demands from County, District, Fire and Police Authorities | 68,229 |
| 32,363 | Payments under Business Rates Retention | 32,771 |
| 126 | Costs of Collection | 125 |
| | Bad and Doubtful Debts/Appeals | |
| 254 | - Write Offs | 286 |
| 505 | Provisions | 282 |
| | Contributions: | |
| (88) | Distribution of Previous Year's Estimated Balance | (510) |
| **97,433** | **Total Expenditure** | **101,183** |
| 186 | Movement on Fund Balance | (1,561) |
| 4 | Opening Fund Balance 1 April | 190 |
| **190** | **Closing Fund Balance 31 March** | **(1,371)** |

# Notes to the additional financial Statements

## 1. Housing Repairs Account

| 2018/19 £000's | | 2019/20 £000's |
|---|---|---|
| | **Income** | |
| (3,196) | Contribution from HRA | (3,192) |
| 0 | Miscellaneous Income | 0 |
| **(3,196)** | **Total Income** | **(3,192)** |
| | **Expenditure** | |
| 434 | Employee costs | 438 |
| 2 | Premises related costs | 8 |
| 10 | Transport related costs | 17 |
| 242 | Supplies and services costs | 141 |
| 289 | Central support costs | 321 |
| 977 | | 925 |
| 709 | Programmed repairs | 665 |
| 1,173 | Responsive repairs | 1,246 |
| **2,859** | **Total Expenditure** | **2,836** |
| **(337)** | **Net Cost of Service** | **(356)** |
| (84) | IAS 19 Pension Adjustment | (74) |
| 460 | Contribution to reserves | 505 |
| **39** | **Deficit/(Surplus) for the year** | **75** |
| **(327)** | **Balance brought forward 1 April** | **(288)** |
| **(288)** | **Balance carried forward 31 March** | **(213)** |

## 2. Movement in Dwelling Stock

The Council was responsible for managing a housing stock of 3,228 dwellings at 31st March 2020. During the year the following movement took place:

| | 2019/20 Number | 2018/19 Number |
|---|---|---|
| Sales (Right to Buy) | (32) | (26) |
| Additions | 1 | 9 |
| **Total Movement** | **(31)** | **(17)** |

## 3. Property Types in Dwelling Stock

The types of properties owned by the Council at 31st March comprise the following:-

| | 2020 Number | 2019 Number |
|---|---|---|
| 1 bedroom bungalows | 282 | 282 |
| 1 bedroom houses | 2 | 2 |
| 1 bedroom flats | 598 | 631 |
| 2 bedroom bungalows | 419 | 405 |
| 2 bedroom houses | 300 | 319 |
| 2 bedroom flats | 410 | 413 |
| 3 bedroom bungalows | 7 | 7 |
| 3 bedroom houses | 1,191 | 1,211 |
| 3 bedroom flats | 0 | 1 |
| 4 bedroom bungalows | 1 | 1 |
| 4 bedroom houses | 16 | 16 |
| 5 bedroom houses | 2 | 2 |
| **Total Dwellings** | **3,228** | **3,290** |

The 1 bedroom flats total, shown above, includes 14 units that are the dwelling equivalent of the flexible hostel places.

## 4. Balance Sheet Value of Council's HRA Assets

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Operational Assets | | |
| - Council Dwellings | 175,745 | 176,440 |
| - Other land and buildings | 795 | 756 |
| **Total Assets** | **176,540** | **177,196** |

The vacant possession value of dwellings within the Council's HRA was £403.056 million. The vacant possession value and Balance Sheet value of dwellings within the HRA, show the economic cost to Government of providing Council housing at less than open market rents.

## 5. Rent Income

Rent Income can be analysed as follows: -

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Collectable from Tenants | (7,694) | (7,300) |
| Rent Rebates | (4,792) | (5,370) |
| Dwelling Rents | (12,486) | (12,670) |
| Non-dwelling Rents (Shops etc) | (81) | (83) |
| **Total Rent** | **(12,567)** | **(12,753)** |

## 6. Rent Arrears

| | 2019/20<br>£'000 | 2018/19<br>£'000 |
|---|---|---|
| Rent Arrears | 1,054 | 1,195 |
| Bad Debt Provision | 998 | 976 |
| Bad Debts Written Off | 92 | 14 |

## 7. Major Repairs Reserve

| | 2019/20<br>£'000 | 2018/19<br>£'000 |
|---|---|---|
| **Balance at 1 April** | **(608)** | **(599)** |
| Amounts transferred to Reserve during the year | (3,009) | (3,009) |
| Capital Expenditure | 3,009 | 3,000 |
| **Balance at 31 March** | **(608)** | **(608)** |

The use of the Major Repairs Reserve to finance HRA capital expenditure relates entirely to enhancement of dwellings.

## 8. Capital Expenditure and Receipts

Total HRA capital expenditure of £6.605 million (£5.284 million 2018/19) was incurred. Expenditure on Dwellings was £6.555 million (£5.186 million in 2018/19), and expenditure on Vehicles Plant and Equipment was £0.050 million. (£0.098 million in 2018/19). The sources of funding are shown below:

| | 2019/20<br>£'000 | 2018/19<br>£'000 |
|---|---|---|
| Capital receipts | 265 | 169 |
| Other Contributions from Reserves | 3,331 | 2,115 |
| Major Repairs Reserve | 3,009 | 3,000 |
| **Total Financing** | **6,605** | **5,284** |

Total capital receipts from HRA disposals during the financial year are shown below:

| | 2019/20<br>£'000 | 2018/19<br>£'000 |
|---|---|---|
| Right to Buy Dwellings | 2,290 | 2,099 |
| Council House Mortgage Repayments | 0 | 0 |
| **Total from Disposals** | **2,290** | **2,099** |

## 9. Depreciation/ Impairment

The total charge for depreciation and impairment for the land, houses and other property within the Council's HRA during the financial year is as follows:-

| | 2019/20<br>£'000 | 2018/19<br>£'000 |
|---|---|---|
| Operational assets | | |
| - Dwellings and garages | 2,665 | 2,653 |
| - Other land and buildings | 0 | 0 |
| - Vehicles, Plant and Equipment | 24 | 43 |
| **Total Depreciation** | **2,689** | **2,696** |

## 10. HRA Share of Contribution to or From the Pension Reserve

To comply with IAS 19, the current service costs for the HRA are calculated separately and incorporated into Supervision and Management and Repairs and Maintenance costs shown. In order that there is no net cost to the HRA, these entries are reversed by the net effect of the following items:

1. Net charges made for retirement benefits in accordance with IAS 19 amounted to £767,000 in 2019/20 (£773,000 in 2018/19).
2. Employer's contributions to the Leicestershire County Council pension fund and retirement benefits payable direct to pensioners. This amounted to £426,000 in 2019/20 (£380,000 in 2018/19).

## 11. Non-Domestic Rateable Value

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Value at 31 March | 85,068 | 84,988 |

## 12. National Non-Domestic Rates Multiplier

| | 2019/20 | 2018/19 |
|---|---|---|
| National Non-Domestic Rates multiplier | 50.4p | 49.3p |
| Small Business Multiplier | 49.1p | 48.0p |

## 13. Council Tax Base

Number of chargeable dwellings in each valuation band converted to an equivalent number of Band D dwellings.

| Band | 2019/20 | 2018/19 |
|---|---|---|
| A | 3,909 | 3,849 |
| B | 9,880 | 9,729 |
| C | 8,521 | 8,464 |
| D | 6,652 | 6,610 |
| E | 4,938 | 4,841 |
| F | 2,976 | 2,949 |
| G | 1,597 | 1,564 |
| H | 112 | 112 |
| **Council Tax Base*** | 38,585 | 38,118 |

* In accordance with relevant regulations, the Council Tax base for the council is rounded to one decimal point. The total taxbase for 2018/19 was approved on 14th December 2017.

## 14. Significant Precepting Authorities

| | 2019/20 | 2018/19 |
|---|---|---|
| | £'000 | £'000 |
| Leicestershire County Council | 49,859 | 47,366 |
| Leicestershire Police & Crime Commissioner | 8,613 | 7,594 |
| Leicester, Leicestershire and Rutland Combined Fire Authority | 2,571 | 2,467 |
| Hinckley and Bosworth Borough Council | 7,186 | 6,846 |
| **Total** | **68,229** | **64,273** |

## 15. Fund Balances

The balance on the Fund is comprised as follows:

| | 31 March 2020 | 31 March 2019 |
|---|---|---|
| | £'000 | £'000 |
| A Deficit/(surplus) on Council Tax/ NNDR Collection. | (1,371) | 190 |
| This will be distributed to the Borough Council, the County Council, the Fire and the Police Authorities in subsequent years in proportion to their demands and precepts on the Fund. | | |

# Statement of accounting Policies

## General Principles

The Statement of Accounts (the Statements) summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31st March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations (2011) which require the Statements to be prepared in accordance with proper accounting practices. These practices primarily comprise of the Code of Practice on Local Council Accounting in the United Kingdom 2019/20 and the Service Reporting Code of Practice 2019/20 (SeRCOP), supported by International Financial Reporting Standards (IFRS). It also complies with guidance notes issued by CIPFA on the application of accounting standards to Local Council accounts.

The relevant accounting policies adopted have been reviewed to ensure that the Statement of Accounts can be relied upon to give a true and fair view of the Council's financial performance and position. They also ensure that all legislative requirements have been correctly applied and that finally, the Statements have been prepared on a going concern basis. That is, the Council will continue in operational existence for the foreseeable future.

The principal accounting policies outlined have been applied consistently throughout the 2019/20 financial year.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets.

The Statement of Accounts has been prepared with reference to the following qualitative characteristics:

- Understandability
- Relevance
- Materiality
- Reliability
- Comparability

## Significant changes in accounting policies

The Council's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the CIPFA Code of Practice on Local Authority Accounting 2019/20. The accounting policies presented in Note 1 are compliant with IFRS and have been applied in preparing the financial statements and the comparative information.

## Revenue Recognition

Revenue represents the amount receivable in respect of services provided to customers. Revenue from services is recognised as the services are provided and is only recognised when payment is probable. Revenue excludes value added tax, similar sales taxes and discounts.

Recognition of Revenues-Council Tax and Non-Domestic Rates

Accounting for Council Tax

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 paid out to major preceptors. The amount credited to the General Fund under statute is a Council's precept or demand for the year, plus or minus the Council's share of the surplus/deficit on the Collection Fund for the previous year.

The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement.
The cash collected by the Council from Council Tax payers belongs proportionately to all the major preceptors. The difference between the amounts collected on behalf of the other major preceptors and the payments made to them is reflected as a receivables or payables balance as appropriate.

Accounting for Non-Domestic Rates (NDR)
The NDR 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 paid out to major preceptors and the Government. The amount credited to the General Fund under statute is the Council's estimated share of NDR for the year from the National Non Domestic Rates NNDR 1 return.

The NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year from the NNDR 3 return. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement.

The cash collected by the Council from NDR payers belongs proportionately to all the major preceptors and Government. The difference between the amounts collected on behalf of the other major preceptors, Government and the payments made to them is reflected as a relievable or payable balance as appropriate.

Since the introduction of the Business Rates Retention Scheme effective from 1 April 2013, local authorities are liable for successful appeals against business rates charged to businesses in 2019/20 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2020. The estimate has been calculated using the Valuation Office (VO) ratings list of appeals and the analysis of successful appeals to date when providing the estimate of total provision up to and including 31 March 2020.

## Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

## Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

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

Prior period adjustments may arise as a result of a change in 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 Authority's financial position or financial performance.
Where a change is made, it is applied retrospectively (unless stated otherwise) 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.

## Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a receivable or payable for the relevant amount is recorded in the Balance Sheet. Expenditure is accrued where goods or services have being received before 31st March but the invoice relating to the goods and services is paid after 31st March. Income is accrued where income is due but an invoice has not been raised or payment has not been received.
- Provision is made for bad debts by identifying a proportion of the Council's receivables that should have their carrying value adjusted to the probable recoverable amount. Past experience and practice is used within material limits to judge the percentages of each type of debt that will eventually not be recovered.

Exceptions are made in respect of electricity and similar utility quarterly payments, which are charged at the date of the meter reading rather than being apportioned between financial years. In addition homelessness prevention bonds are treated on a cash basis. These policies are consistently applied each year and, therefore; do not have a material effect on the Statements.

## Government Grants and Contributions

Whether paid on account, by instalments or in arrears, Government grants and other contributions and donations are recognised as due when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments; and
- The funding will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as payables. When conditions are satisfied, the grant or contribution is credited to the relevant service line. General grants are credited to the Comprehensive Income and Expenditure Account and shown after Net Operating Expenditure.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grant Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## Revenue Expenditure funded from Capital under Statute

Revenue Expenditure funded from Capital under Statute (REFCUS) results from expenditure of a capital nature where no asset is created for the Council. They include improvement grants or advances to other individuals or organisations for the purpose that would have been capital if incurred by the Council.

REFCUS also includes exceptional revenue expenditure for which a capitalisation direction has been granted to allow this expenditure to be funded from capital.

Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account is taken through the Movement in Reserves Statement so there is no impact on the level of Council Tax.

## Charges to Revenue for Non-current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible assets.

These charges are reversed from the Comprehensive Income and Expenditure Statement through the Movement in Reserves Statement to the Capital Adjustment Account so that they do not create a requirement to raise additional Council Tax. However, the Council is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation, impairment losses and amortisation are therefore replaced by revenue provision in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

## Fair Value Measurement

The Council measures some of its non-financial assets and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. When measuring the fair value of a non-financial asset, the Council takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the assets in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council’s financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 – unobservable inputs for the asset.

## Property, Plant and Equipment – Recognition and Impairment

Assets that have physical substance, are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

### Recognition

All expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis in the accounts. Expenditure on property, plant and equipment is capitalised, provided that the asset yields benefits to the Council and the services it provides, for a period of more than one year.

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The Council has a general de-Minimis limit of £5,000 for capital expenditure purposes. One single item which results in the capitalisation of expenditure above that limit is recognised as an asset in the Balance Sheet. Items below this limit are charged to revenue.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where a component is replaced or restored (i.e. enhancements), the carrying amount of the old component shall be derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the recognition principles as set out above being met.

Measurement

Assets are valued on the basis recommended by CIPFA and in accordance with the statements of Asset Valuation Principles and Guidance notes issued by the Royal Institution of Chartered Surveyors (RICS). Non current assets are then carried in the Balance Sheet using the following measurement basis:

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH).
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant’s perspective.
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. For March 2020 a desktop valuation was carried out by Wilks Head and Eve LLP.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

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

## Property, Plant and Equipment – Depreciation, Impairment and Disposal

### Depreciation

Depreciation is provided for all property, plant and equipment except for freehold land and assets under construction. Depreciation is provided for on other assets with a determinable finite life by allocating the value of asset in the Balance Sheet over the periods expected to benefit from their use. Depreciation is calculated over the expected life of each asset.

Depreciation is provided in accordance with the following policies:

- Operational buildings, vehicles, plant and equipment, and infrastructure assets are depreciated.
- No depreciation provision is made for land or investment properties.
- Newly acquired assets and enhancements are depreciated from the following year, although assets in the course of construction are not depreciated until they are brought into use.
- Depreciation is calculated using the straight line method.

As part of the annual revaluation exercise, the valuer provides estimated residual lives for all dwellings, which is used to calculate the deprecation charge for the financial year. This method reflects the average range of expected life per dwelling of between 40-60 years. For 2019/20 the estimated residual life used was 46 years. Where an item of property, plan and equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

### Impairment

Assets are assessed at each year-end by the Estates and Assets Manager as to whether there is any indication that an asset may be impaired.

Where impairment losses are identified as part of this review or as a result of a valuation exercise, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gain)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement. This policy is applied correspondingly when an impairment is required to be reversed

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Disposal

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet and the receipt from disposal are written off to the Comprehensive Income and Expenditure Statement as part of the loss or gain on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Income from the disposal of Property, Plant and Equipment is accounted for on an accruals basis and the unapplied balance is included in the Balance Sheet as Useable Capital Receipts.

For the purposes of the capital expenditure controls, the Council will set aside capital receipts for future capital spend or set aside to reduce the Council's need to borrow. Almost all capital receipts can therefore be used to finance borrowing, with the following exceptions:

- Receipts in relation to assets purchased using grants from Central Government and its agencies, where the receipt must first be used to repay grant in line with any funding agreement.
- Proportion of housing receipts required for Government pooling.

The Local Government Act (2003) introduced pooling arrangements from disposal of housing land (which includes any land, house or other building). The pooling arrangements are:

- Dwellings sold under Right to Buy (RTB) - Based on the 2012 amendments to The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146)
- Other HRA assets (e.g. Bare land, shops) - 50% of receipt pooled unless used for regeneration or social housing.

Assets under Construction

Asset under Construction are recognised only when it is probable that the future economic benefits will flow to the Council and the cost can be measured reliably. Assets under Construction are capitalised at cost which includes labour and overhead costs arising directly from the construction of the asset. Assets under Construction are not depreciated until they are brought into use under the relevant sections of property plant and equipment.

## Intangible Assets

Expenditure on non-monetary assets that do not have a physical substance but are controlled by the Council as a result of past events (e.g. software licenses) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. The depreciable amount of intangible assets are amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any impairment losses and disposal profits or losses are treated in the same way as Property Plant and Equipment.

## Heritage Assets

Heritage assets are defined as those tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities and are held for their contribution to knowledge and culture.

Heritage assets are recognised where they meet this criteria and are valued in excess of the de-Minimis threshold of £121k. Heritage assets are measured in the Balance Sheet at valuation which is based on replacement value or insurance value, where the former cannot be established. An impairment review will be carried out each year to assess any physical deterioration of the assets. All heritage assets held by the Council are deemed to have indefinite lives and therefore are not depreciated. Any disposal of assets will be treated in the same manner as other Property, Plant and Equipment.

## Assets Held for Sale

When the value of non-current assets is expected to be recovered principally through sale rather than through continuing usage, they are classified as non-current assets held for sale. In these cases, the assets are actively marketed at 31st March and their sale is probable in the following year. With the exception of assets arising from employee benefits and financial instruments, these assets are classified as current and are stated at the lower of their carrying amount and current value less costs to sell.

Measurement differences arising between the carrying amount and current value less cost of disposal are treated as impairment charges and are separately disclosed.

## Leases

The Authority as Lessee:

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its current value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and a finance charge debited to the Financing, and
- Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (where applicable– may not be a finance charge e.g. leases in regard to land).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor:

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of property, Plant and equipment is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to Cost of Services in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line Basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income. Initial direct costs incurred in negotiating and arranging the lease, along with any incentive payments, are charged as an expense over the lease term on the same basis as rental income.

## Provisions

Provisions are made when an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

## Reserves

The Council may establish reserves to allow specific future objectives to be financed. It also retains general balances to allow for contingencies.

Reserves are created by appropriating amounts in the Comprehensive Income and Expenditure Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year against the Net Cost of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non current assets, financial instruments and employment benefits. These are classified as unusable reserves and are explained in the relevant polices.

## Related Party Transactions

The Council discloses transactions with related parties – bodies or individuals that have the potential to “control” or “influence” the Council or to be “controlled” or “influenced” by the Council. These relationships, in year transactions and outstanding balances are disclosed within a narrative note to the Statements.

## Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather that the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the asset being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf and the income that it earns from the venture.

## Employee Benefits – Benefits Payable During Employment

Short-term employee benefits (those that fall wholly within 12 months of the year end), such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits such as car loans for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made against the service in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and flexi-time earned by employees but not taken before the year end and which employees can carry forward into the next financial year. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that the holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

## Employee Benefits – Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. Amounts are charged on an accruals basis to the relevant service(s) in the Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructure.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Fund Reserve to remove the notional debits and credits for termination benefits related to pensions enhancements and replace them with debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year end.

## Employee Benefits – Post-employment Benefits

Employees of the Council are members of the Local Government Pension Scheme (LGPS) administered by Leicestershire County Council. The LGPS provides defined benefits to members (retirement lump sums and pensions) earned as employees when working for the Council.

The liabilities of the LGPS pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate set by the actuary.

The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value

The charge in the net pension liability is analysed into service costs comprising of:

- 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 as a result of a scheme amendment or curtailment 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.

Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

Remeasurements of the scheme are split between:

- Remeasurement return on plan assets – excluding amounts included in the net interest on the net defined liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Remeasurement 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 Pensions Reserve as Other Comprehensive Income and Expenditure.
- 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.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pension Reserve thereby measure the beneficial impact to the General Fund required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

## Employee Benefits – Discretionary Benefits

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirement. Any liabilities estimate to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the LGPS.

## Accounting for Precept and NNDR

The Code requires that precepts and NNDR are accounted for on an agency basis. This means that only the proportion of outstanding or prepaid Council Tax and NNDR relating to this Council is accounted for in the main financial statements. Other amounts outstanding are reported in the financial statements of the "owning" body.

## Financial Instruments

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provision of the instrument. Financial liabilities are initially measured at fair value and are carried at amortised cost  Where applicable (i.e. for loans) annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable based on the interest rate of the liability. This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and the interest charged to the Comprehensive Income and Expenditure Account is the amount payable for the year according to the loan agreement.

### Financial Assets

Financial assets are recognised in the Balance Sheet when the Council becomes a party to the contractual provision of the instrument. Financial assets are initially measured at fair value and then are subsequently measured at their amortised cost.  Where applicable (i.e. for investments) annual credits are included in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable based on the interest rate of the investment. This means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest); and the interest credited to the Comprehensive Income and Expenditure Account is the amount receivable for the year according to the loan agreement.

The Council has made a number of loans to organisations and individuals at less than the market rate (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective interest rate of interest. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

## Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, which provide evidence of conditions that existed at the end of the reporting but occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – in these cases the Statements are adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – in these cases the Statements are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes 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.

Glossary of Terms

| Term | Definition |
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| **Accounting Policies** | Principles, bases, rules and practices applied in the preparation of the financial statements. |
| **Accruals** | The concept that income and expenditure are recognised as they are earned or incurred not as money is received or paid. |
| **Actuarial Gains and Losses** | For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because<br>a) events have not coincided with the actuarial assumptions made at the last valuation (experience gains or losses) or<br>b) the actuarial assumptions have changed. |
| **Capital Charge** | A charge to revenue accounts to reflect the cost of Non Current Assets used in the provision of services. |
| **Capital expenditure** | Expenditure on the acquisition of Non Current Assets or expenditure which adds to and not merely maintains the value of an existing asset. |
| **Capital Receipt** | Money the Council receives from the sales of assets (buildings, land etc). |
| **CCAB** | Consultative Committee for Accountancy Bodies. |
| **CIPFA** | Chartered Institute of Public Finance and Accountancy, the principal accountancy body dealing with local government finance. |
| **Community Assets** | Land held permanently for the benefit of Borough residents. |
| **Consistency** | The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same. |
| **Corporate and Democratic Core** | Activities of the Council due to being an elected, multi purpose body. The cost of these activities is over and above those that would be incurred by a series of independent, single purpose nominated bodies managing the same activities. There is no logical basis for apportioning these costs to services. |
| **Current Service Cost (Pensions)** | The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period. |

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| **Defined Benefits Scheme** | A pension or other retirement benefit scheme where the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investment of the scheme. The scheme may be funded or unfunded (including notionally funded). |
| **Depreciation** | The measure of the wearing out, consumption, or other reduction in the useful life of Property, Plant and Equipment assets whether arising from use, passage of time or obsolescence through technology or other changes. |
| **Discretionary Benefits** | Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Authority's discretionary powers such as the Local Government Discretionary Payments Regulations 2000. |
| **Expenditure and Funding Analysis** | This is a reconciliation between management reporting segments and the CIES surplus and defect on the provision of services. The statement brings together local authority performance reported on the basis of expenditure measured under proper accounting practises with statutory defined charges to the General fund and HRA. |
| **Expected Rate of Return on Pensions Assets** | For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme. |
| **Current value** | The fair value of an asset is the price at which an asset could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset. |
| **Finance Lease** | A lease that substantially transfers all of the risks and rewards of ownership of an asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment amounts to substantially all of the current value of the leased asset. |
| **Non Current Assets** | Property, plant and equipment assets that yield benefits to the local Authority and the services it provides for a period of more than one year. |
| **General Fund** | The Council's main revenue account covering the net cost of all services other than Council housing. |

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| **Going Concern** | The concept that the Council will remain in operational existence for the foreseeable future, in particular that the revenue accounts and the Balance Sheet assume no intention to curtail significantly the scale of operations. |
| **Impairment** | The reduction in the valuation of a Property, Plant and Equipment asset or goodwill below its Balance Sheet value and occurs when something adverse has happened to either the asset itself or to the economic environment in which the asset is operated. |
| **Infrastructure Assets** | Non Current Assets that are inalienable expenditure on which is recoverable only by continued use of assets created. Examples of infrastructure assets are Highways and Footpaths. |
| **Interest Cost (Pensions)** | For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement. |
| **Inventories** | Comprise the following categories:-<br>i) goods or other assets purchased for resale;<br>ii) consumable stores;<br>iii) raw materials and components purchased for incorporation into products for sale;<br>iv) products and services in intermediate stages of completion;<br>v) contract balances;<br>vi) finished goods. |
| **Investments (Non Pensions Fund)** | A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should only be classed as such where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.<br><br>Investments, other than those in relation to pension's funds, which do not meet the above criteria, are classified as current assets. |
| **Investments (Pensions Fund)** | The investments of the Pensions Fund will be accounted for in the Statements of the administering Authority, which is Leicestershire County Council. District Councils are required to disclose as part of the requirements relating to retirement benefits the attributable share of Pensions Scheme assets associated with their underlying obligations. |

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| **Investment Properties** | Interest in land and/or buildings:-<br><br>a) in respect of which construction work and development has been completed; and<br><br>b) which is held for its investment potential, any rental income being negotiated at arm's length. |
| **Major Repairs Reserve** | A reserve created to deal with major capital repairs to HRA properties financed from the Major Repairs Allowance. |
| **Minimum Revenue Provision (MRP)** | Minimum Revenue Provision is the minimum amount the Council is required to provide for the repayment of long-term debt used to finance the acquisition of Non Current Assets. |
| **Movement in Reserves Statement (MIRS)** | The MIRS shows the movement in the year on the various reserves held by the Council. Reserves are classified into usable and unusable reserves. Usable Reserves are those that can be used to cover expenditure or reduce the level of local taxation required.<br>They include the general fund, earmarked reserves and the capital receipts reserve.<br>Unusable reserves tend to arise due to difference in the legal responsibilities that cover how transactions need to be accounted for and accounting requirements. These reserves cannot be used to cover expenditure, and include the pensions reserve, the revaluation reserve and the capital adjustment account. |
| **National Non-Domestic Rates (NNDR)** | National Non-Domestic Rates (Business Rates) represents the rate of taxation on business properties. Central Government has the responsibility for setting the rate and Local Authorities are responsible for the billing and collection of the tax. |
| **Net Book Value** | The amount at which Non Current Assets are included in the Balance Sheet i.e. their historic cost or current value less the cumulative amounts provided for depreciation. |
| **Net Current Replacement Cost** | The cost of replacing or recreating the particular asset in its existing condition and existing use i.e. the cost of its replacement or the nearest equivalent asset, adjusted to reflect the current condition of the existing asset. |
| **Net Realisable value** | The open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses incurred in realising the asset. |
| **Non-Distributed Costs** | These are overheads for which no user benefits and therefore should not be apportioned to services. |

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| **Non-Operational Assets** | Non Current Assets that are held by a Local Authority but not directly occupied, used or consumed in the delivery of services. Examples would be investment properties and assets surplus to requirements, pending sale or redevelopment. |
| **Operating Leases** | A lease other than a finance lease. |
| **Operational Assets** | Non Current Assets that are held and occupied used or consumed by the Local Authority in the direct delivery of services for which it has a statutory or discretionary responsibility. |
| **Past Service Cost** | For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of or improvement to retirement benefits. |
| **Post Balance Sheet Events** | Those events, both favourable and unfavourable, which occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer. |
| **Precept** | A demand by one public body to another public body to collect revenue from a Council Tax payer. |
| **Projected Unit Method** | An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:-<br>i) the benefits for pensioners and deferred pensioners (i.e. the individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases;<br>and<br>ii) The accrued benefits for members in service on the valuation date. The accrued benefits are benefits up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note 27 issued by the Faculty and Institute of Actuaries. |
| **Prudence** | The concept that revenue is not anticipated but is recognised only when realised in the form of cash or other assets, the ultimate cash realisation of which can be assessed with reasonable certainty. |
| **Reserve** | Monies set aside for a scheme or event that may happen. |

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| **Retirement Benefits** | All forms of consideration given by an employer in exchange for services rendered by an employee that are payable after the completion of employment. Retirement benefits do not include termination payments payable as a result of either;<br>i) An employer's decision to terminate an employee's employment before normal retirement date<br>Or<br>ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees. |
| **Revenue expenditure** | Any expenditure that is of a recurring nature and does not result in the creation of an asset that is of benefit to the organisation beyond the end of the current accounting period. |
| **Scheme Liabilities** | The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date. |
| **Settlement** | An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include.<br>i) a lump sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;<br>ii) the purchase of an irrevocable annuity contract sufficient to cover vested benefits;<br>iii) the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme. |
| **Total Cost** | The total cost of a service or activity includes all costs which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and capital charges. This includes an appropriate share of all support services and overheads, which need to be apportioned. |
| **Ultra Vires** | An action that is outside the powers allowed to the body that wants to execute the action. |
| **Useful Life** | The period over which the Local Authority will derive benefits from the use of an asset. |

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| **Vested rights** | In relation to a defined benefits pension scheme, these are:-<br>i) For active members, benefits to which they would be unconditionally entitled to on leaving the scheme;<br>ii) For deferred pensioners, their preserved benefits;<br>iii) For pensioners, pension to which they are entitled.<br>Vested rights include where appropriate, the related benefits for spouses or other dependants. |

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